

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
SYNIVERSE HOLDINGS, INC.**

**Consolidated Financial Statements**

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## **REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Syniverse Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Syniverse Holdings, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Syniverse Holdings, Inc. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as whole, presents fairly in all material respects the information set forth herein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Syniverse Holdings, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2007, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Tampa, Florida  
March 8, 2007

**SYNIVERSE HOLDINGS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)**

	December 31, 2005	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash .....	\$ 49,294	\$ 26,704
Accounts receivable, net of allowances of \$1,067 and \$1,117, respectively .....	61,735	69,163
Prepaid and other current assets .....	4,379	10,137
Total current assets .....	115,408	106,004
Property and equipment, net .....	43,426	42,880
Capitalized software, net .....	52,674	51,803
Deferred costs, net .....	6,218	4,842
Goodwill .....	362,065	393,662
Identifiable intangibles, net .....	190,327	182,254
Other assets .....	1,240	2,702
Total assets .....	<u>\$ 771,358</u>	<u>\$784,147</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 4,862	\$ 8,591
Accrued payroll and related benefits .....	11,738	5,142
Accrued interest .....	5,618	5,206
Other accrued liabilities .....	21,067	36,461
12 3/4% senior subordinated notes due 2009, net of discount .....	14,469	—
Current portion of Term Note B .....	1,801	1,393
Total current liabilities .....	59,555	56,793
Long-term liabilities:		
Deferred tax liabilities .....	36,186	1,900
7 3/4% senior subordinated notes due 2013 .....	175,000	175,000
Term Note B, less current maturities .....	176,524	135,168
Other long-term liabilities .....	1,454	492
Total long-term liabilities .....	389,164	312,560
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 300,000 shares authorized; no shares issued .....	—	—
Common stock, \$0.001 par value; 100,300,000 shares authorized; 67,667,819 shares issued and 67,370,851 shares outstanding and 68,419,194 shares issued and 68,039,075 shares outstanding at December 31, 2005 and December 31, 2006, respectively .....	68	68
Additional paid-in capital .....	457,165	459,125
Accumulated deficit .....	(134,501)	(44,777)
Accumulated other comprehensive income (loss) .....	(70)	406
Common stock held in treasury, at cost; 296,968 and 380,119 shares at December 31, 2005 and December 31, 2006, respectively .....	(23)	(28)
Total stockholders' equity .....	322,639	414,794
Total liabilities and stockholders' equity .....	<u>\$ 771,358</u>	<u>\$784,147</u>

See Notes to Consolidated Financial Statements.

**SYNIVERSE HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)**

	Years Ended December 31,		
	2004	2005	2006
Revenues (including \$1,462, \$959 and \$0 from affiliate, respectively) . . . . .	\$332,403	\$341,791	\$337,019
Costs and expenses:			
Cost of operations (excluding depreciation and amortization shown separately below and including \$195, \$294 and \$0 from affiliate, respectively) . . . . .	138,484	129,190	134,641
Sales and marketing . . . . .	20,244	23,344	25,446
General and administrative (including \$500, \$83 and \$0 from affiliate, respectively) . . . . .	41,774	49,396	58,508
Depreciation and amortization . . . . .	41,972	46,815	41,172
Restructuring . . . . .	289	143	1,006
Impairment losses on intangible assets . . . . .	14,056	—	—
	<u>256,819</u>	<u>248,888</u>	<u>260,773</u>
Operating income . . . . .	75,584	92,903	76,246
Other income (expense), net:			
Interest income . . . . .	1,148	1,957	1,824
Interest expense . . . . .	(52,928)	(34,647)	(27,328)
Loss on extinguishment of debt . . . . .	—	(42,804)	(924)
Other, net . . . . .	(12)	1,436	332
	<u>(51,792)</u>	<u>(74,058)</u>	<u>(26,096)</u>
Income before provision for (benefit from) income taxes . . . . .	23,792	18,845	50,150
Provision for (benefit from) income taxes . . . . .	8,729	9,041	(39,574)
Net income . . . . .	15,063	9,804	89,724
Preferred stock dividends . . . . .	(31,564)	(4,195)	—
Net income (loss) attributable to common stockholders . . . . .	<u>\$ (16,501)</u>	<u>\$ 5,609</u>	<u>\$ 89,724</u>
Net income (loss) per common share:			
Basic . . . . .	<u>\$ (0.41)</u>	<u>\$ 0.09</u>	<u>\$ 1.34</u>
Diluted . . . . .	<u>\$ (0.41)</u>	<u>\$ 0.09</u>	<u>\$ 1.33</u>
Weighted average common shares outstanding:			
Basic . . . . .	<u>39,838</u>	<u>61,973</u>	<u>66,943</u>
Diluted . . . . .	<u>39,838</u>	<u>62,978</u>	<u>67,298</u>

See Notes to Consolidated Financial Statements.

**SYNIVERSE HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY (DEFICIT)**  
**(DOLLARS IN THOUSANDS)**

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2003 .....	\$ 40	\$ 68,585	\$(159,368)	\$ 426	\$—	\$ (90,317)
Net income .....	—	—	15,063	—	—	15,063
Other comprehensive income- unrealized loss on investments ...	—	—	—	(42)	—	(42)
Comprehensive income .....	—	—	—	—	—	15,021
Accrued dividends on class A preferred stock .....	—	(31,564)	—	—	—	(31,564)
Balance, December 31, 2004 .....	\$ 40	\$ 37,021	\$(144,305)	\$ 384	\$—	\$(106,860)
Net income .....	—	—	9,804	—	—	9,804
Other comprehensive income- unrealized loss on investments ...	—	—	—	(237)	—	—
foreign currency translation loss .....	—	—	—	(217)	—	(454)
Comprehensive income .....	—	—	—	—	—	9,350
Issuance of common stock .....	18	260,948	—	—	—	260,966
Conversion of preferred stock to common stock .....	10	163,391	—	—	—	163,401
Accrued dividends on class A preferred stock .....	—	(4,195)	—	—	—	(4,195)
Purchase of treasury stock .....	—	—	—	—	(23)	(23)
Balance, December 31, 2005 .....	\$ 68	\$457,165	\$(134,501)	\$ (70)	\$ (23)	\$ 322,639
Net income .....	—	—	89,724	—	—	89,724
Other comprehensive income- unrealized loss on investments ...	—	—	—	(118)	—	—
foreign currency translation gain .....	—	—	—	594	—	476
Comprehensive income .....	—	—	—	—	—	90,200
Stock options exercised .....	—	140	—	—	—	140
Stock-based compensation .....	—	1,820	—	—	—	1,820
Purchase of treasury stock .....	—	—	—	—	(5)	(5)
Balance, December 31, 2006 .....	<u>\$ 68</u>	<u>\$459,125</u>	<u>\$ (44,777)</u>	<u>\$ 406</u>	<u>\$ (28)</u>	<u>\$ 414,794</u>

See Notes to Consolidated Financial Statements.

**SYNIVERSE HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(DOLLARS IN THOUSANDS)**

	Years Ended December 31,		
	2004	2005	2006
<b>Cash flows from operating activities</b>			
Net income	\$ 15,063	\$ 9,804	\$ 89,724
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including amortization of deferred debt issuance costs	51,044	50,431	42,538
Provision for (recovery of) uncollectible accounts	(165)	546	489
Deferred income tax expense (benefit)	8,562	8,948	(40,304)
Loss on extinguishment of debt	—	42,804	924
Stock-based compensation	—	—	1,820
Loss on disposition of property	147	612	441
Gain on sale of marketable securities	—	(1,446)	(119)
Impairment losses on intangible assets	14,056	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(15,617)	17,169	(637)
Other current assets	1,424	172	2,957
Accounts payable	8,356	(6,486)	(5,960)
Other current liabilities	4,873	(10,971)	6,400
Other assets and liabilities	(2,047)	(1,006)	(462)
Net cash provided by operating activities	85,696	110,577	97,811
<b>Cash flows from investing activities</b>			
Capital expenditures	(22,184)	(34,001)	(19,921)
Proceeds from the sale of marketable securities	—	1,446	119
Acquisition of IOS North America	(56,479)	—	—
Acquisition of ITHL, net of acquired cash	—	—	(43,881)
Net cash used in investing activities	(78,663)	(32,555)	(63,683)
<b>Cash flows from financing activities</b>			
Debt issuance costs paid	(1,102)	(6,681)	—
Repayment of 12 3/4% senior subordinated notes due 2009 including prepayment of premium and related fees	—	(257,661)	(15,424)
Repayment of previous senior credit facility	—	(220,073)	—
Principal payments on previous senior credit facility	(40,701)	—	—
Borrowings under previous senior credit facility	44,500	—	—
Borrowings under new senior credit facility	—	240,000	—
Principal payments on new senior credit facility	—	(61,675)	(41,763)
Proceeds from issuance of 7 3/4% senior subordinated notes due 2013	—	175,000	—
Proceeds from issuance of common stock, net of issuance costs of \$20,961	—	260,966	—
Redemption of Class A preferred stock at liquidation value	—	(176,456)	—
Stock options exercised	—	—	140
Purchase of treasury stock	—	(23)	(5)
Net cash provided by (used in) financing activities	2,697	(46,603)	(57,052)
Effect of exchange rate changes on cash	(110)	(44)	334
Net increase (decrease) in cash	9,620	31,375	(22,590)
Cash at beginning of period	8,299	17,919	49,294
Cash at end of period	\$ 17,919	\$ 49,294	\$ 26,704
<b>Supplemental cash flow information</b>			
Interest paid	\$ 44,296	\$ 40,695	\$ 26,455
Income taxes paid	81	140	764
<b>Supplemental non-cash transactions</b>			
Reduction of goodwill and restructuring reserve accrual	—	444	72

See Notes to Consolidated Financial Statements.

**SYNIVERSE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(AMOUNTS IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)**

**1. Description of Business and History**

We are a leading provider of mission-critical technology services to wireless telecommunications companies worldwide. Our mission-critical technology services solve technical and operational challenges for the wireless industry by translating otherwise incompatible communication standards and protocols and simplifying carrier interconnectivity allowing seamless communications and facilitating advanced services. Our fully-integrated suite of transaction-based services allows carriers to deliver seamless voice, data and next generation services to wireless subscribers. We currently provide our services to more than 350 carriers in over 50 countries. For 20 years, we have served a critical and central role as one of the wireless industry's only carrier-neutral intermediaries and continue to develop innovative solutions to solve the challenges that arise as new technologies, standards and protocols emerge. The majority of our revenues are transaction-based and derived from long-term contracts, typically averaging three years in duration.

**History**

As described more fully in Note 4, we acquired the North American clearinghouse business of Electronic Data Systems Corporation (IOS North America) on September 30, 2004. The acquisition was accounted for using the purchase method of accounting.

On January 17, 2005, Syniverse Holdings, LLC (Syniverse LLC), our former parent, contributed its ownership of all the non-voting common stock of Syniverse Networks, Inc. (Syniverse Networks) to us, resulting in our ownership of 100% of Syniverse Networks. From February 14, 2002 until January 17, 2005, Syniverse LLC owned all of the non-voting common stock and we owned all of the voting preferred stock of Syniverse Networks. Prior to February 14, 2002, the Verizon business, which we acquired, owned all of the operations referred to as Syniverse Networks. Since this was a business combination of entities under common control, we have accounted for this 2005 transaction in a manner similar to a pooling of interests. As a result, all of our financial statements since February 14, 2002 include all of the historical results of Syniverse Networks.

On February 9, 2005, Syniverse LLC entered into an Amendment No. 1 to Limited Liability Company Agreement and Dissolution Agreement, dated as of February 9, 2005, with us and certain members of Syniverse LLC (the Dissolution Agreement). The Dissolution Agreement provided, among other things, for (i) the distribution of our capital stock to the members of Syniverse LLC, (ii) the termination of certain equity agreements among Syniverse LLC and its members and (iii) the subsequent dissolution of Syniverse LLC.

On February 9, 2005, we merged our subsidiaries, Syniverse Networks and Syniverse Finance, Inc. (Syniverse Finance), with and into Syniverse Technologies, Inc. (Syniverse), another wholly owned subsidiary.

On February 9, 2005, our Board of Directors approved (i) the reclassification of the outstanding shares of our non-voting class B common stock into shares of our voting common stock, (ii) the 1-for-2.485 reverse stock split of our common stock with respect to the number of shares but not the par value per share, (iii) the increase in the number of shares reserved for issuance under the Non-Employee Directors Plan for a total of 160,630 shares of our common stock reserved for issuance and (iv) the number of shares to be granted to new non-employee directors who do not otherwise have an equity interest in our company under the Non-Employee Directors Plan to 20,000 shares of our common stock. All shares of common stock and per common share amounts have been retroactively restated to reflect this reverse stock split. In addition, the amended and restated plan provided an additional one-time option grant to each of our existing non-employee and non-equity investor directors as of the date immediately prior to our initial public offering, entitling the holder to purchase 10,000 shares of our common stock at the offering price. These options will vest in equal annual amounts over a period of five years.

On February 10, 2005, we completed an initial public offering of 17,620,000 shares of common stock at a price of \$16.00 per common share. The net proceeds of the offering of \$260,966 after deducting underwriting discounts, commissions and expenses, along with \$240,000 received from our new credit facility described in Note 13, were used primarily to redeem 124,876 shares of our class A cumulative redeemable preferred stock described in Note 15, tender for 35% of our 12<sup>3</sup>/<sub>4</sub>% senior subordinated notes described in Note 13 and repay and terminate our previous senior credit facility described in Note 13.

As described more fully in Note 5, we acquired the capital stock of Perfect Profits International Limited (PPIL) which comprises the Interactive Technologies Holdings Limited business (ITHL), from Interactive Technologies Holdings Limited on June 16, 2006. The acquisition was accounted for using the purchase method of accounting.

## **2. Summary of Significant Accounting Policies**

### **Basis of Presentation and Principles of Consolidation**

The consolidated financial statements include the accounts of Syniverse Inc., Syniverse, Syniverse Technologies, BV (Syniverse BV), Syniverse Brence, LLC (Syniverse Brence), Syniverse Holdings Limited (Syniverse Limited) and Perfect Profits International Limited (PPIL) since the date of acquisition of June 16, 2006. Syniverse Inc. was wholly owned by Syniverse LLC until our February 10, 2005 initial public offering as described in Note 15. Concurrent with the initial public offering, Syniverse LLC was dissolved. References to “the Company”, “us”, or “we” include all of the consolidated companies. All significant intercompany balances and transactions have been eliminated.

### **Use of Estimates**

We prepare our financial statements using accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

### **Revenue Recognition**

The majority of our revenues are transaction-based and derived from long-term contracts, typically averaging three years in duration. Our revenues are primarily the result of the sale of our technology interoperability services, network services, number portability services, call processing services and enterprise solutions to wireless carriers throughout the world. In order to encourage higher customer transaction volumes, we generally negotiate tiered pricing schedules with our customers based on certain established transaction volume levels. Generally, there is also a seasonal increase in wireless roaming telephone usage and corresponding revenues in the high-travel months of the second and third fiscal quarters.

- **Technology Interoperability Services** primarily generate revenues by charging per-transaction processing fees. For our wireless roaming clearinghouse, Short Message Service (“SMS”) and Multimedia Messaging Services (“MMS”), revenues vary based on the number of data/messaging records provided to us by wireless carriers for aggregation, translation and distribution among carriers. We recognize revenues at the time the transactions are processed. Through our acquisition of Interactive Technology Holdings Limited (ITHL), we provide solutions with multiple product and service elements which may include software and hardware products, as well as installation services, post-contract customer support and training. In those cases, we recognize revenues in accordance with the American Institute of Certified Public Accountants’ Statement of Position 97-2 (SOP 97-2), *Software Revenue Recognition*, as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions*. Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable.



- **Network Services** primarily generate revenues by charging per-transaction processing fees. In addition, our customers pay monthly connection fees based on the number of network connections as well as the number of switches with which a customer communicates. The per-transaction fees are based on the number of intelligent network messages and intelligent network database queries made through our network and are recognized as revenues at the time the transactions are processed. In addition, a small amount of our revenues are generated through software license fees, maintenance agreements and professional services. Software license fees are generally recognized over the contract period. Maintenance agreements call for us to provide technical support and software enhancements to customers. Revenues on technical support and software enhancement rights are recognized ratably over the term of the support agreement. Professional services include consulting, training and installation services to our customers. Revenues from such services are generally recognized on a straight-line basis over the same period as the software license fees.
- **Number Portability Services** primarily generate revenues by charging per-transaction processing fees, monthly fixed fees, and fees for customer implementations. We recognize processing revenues at the time the transactions are processed. We recognize monthly fixed fees as revenues on a monthly basis as the services are performed. We defer revenues and incremental customer-specific costs related to customer implementations and recognize these fees and costs on a straight-line basis over the life of the initial customer agreements.
- **Call Processing Services** primarily generate revenues by charging per-transaction processing fees. The per-transaction fee is based on the number of validation, authorization and other call processing messages generated by wireless subscribers. We recognize processing fee revenues at the time the transactions are processed.
- **Enterprise Solutions Services** primarily generate revenues by charging per-subscriber fees. We recognize these revenues at the time the service is performed.
- **Off-Network Database Query Fees** primarily generate revenues by providing access to database providers. We pass these charges onto our customers, with little or no margin, based upon the charges we receive from the third party intelligent network database providers. We recognize revenues at the time the transaction is processed.

Due to our billing cycles, which for some products lag as much as 40 days after the month in which the services are rendered, we estimate the amounts of unbilled revenue each reporting period. Our estimates are based on recent volume and pricing trends adjusted for material changes in contracted services. Historically, our estimates have not been materially different from our actual billed revenue. Unanticipated changes in volume and pricing trends or material changes in contracted services could adversely affect our estimates of unbilled revenue.

#### **Advertising Costs**

We expense advertising costs as they are incurred. Advertising costs charged to expense amounted to \$307, \$247 and \$150 for the years ended December 31, 2004, 2005 and 2006, respectively.

#### **Research and Development**

Research and development costs are charged to expense as incurred. Research and development costs which are included in general and administrative expense in the consolidated statements of operations amounted to \$13,102, \$16,964 and \$18,725 for the years ended December 31, 2004, 2005 and 2006, respectively.

#### **Stock-Based Compensation**

On May 16, 2002, Syniverse Inc.'s Board of Directors adopted a Founders' Stock Option Plan for non-employee directors, executives and other key employees and a Directors' Stock Option Plan for directors. On May 9, 2006, our Board of Directors adopted the 2006 Long-Term Equity Incentive Plan 2006 and Employee

Stock Purchase Plan. We account for these plans and related grants thereunder under Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). Please refer to Note 6 for further discussion regarding stock-based compensation.

### Cash and Cash Equivalents

We consider all highly liquid investments of operating cash with original maturities of three months or less to be a cash or cash equivalent. Cash and cash equivalents include money market funds, commercial paper and various deposit accounts and are stated at cost, which approximates fair value.

### Accounts Receivable

Accounts receivable are recorded at net realizable value which is the amount that we expect to collect on our gross customer trade receivables. We establish an allowance for specific receivables with known collection problems due to circumstances such as liquidity or bankruptcy. Collection problems are identified using an aging of receivables analysis based on invoice due dates. Items that are deemed uncollectible are written off against the allowance for collection losses. We do not require deposits or other collateral from our customers and hence we are at risk for all accounts receivable.

We charge interest on overdue receivables, but do not recognize interest income until collected. At December 31, 2005 and 2006, accounts receivable includes interest receivable totaling \$1,016 and \$1,314, respectively, related to finance charges to customers, which are fully offset by a contra account.

### Property and Equipment, Net

Property and equipment consist primarily of hardware and software equipment necessary to operate our SS7 network, leasehold improvements and furniture in our headquarter facilities, which are recorded at cost and depreciated using the straight-line method over the estimated remaining lives.

The asset lives used are presented in the following table:

	<u>Average Lives</u> <u>(In Years)</u>
Equipment .....	5 – 10
Furniture and fixtures .....	6
Leasehold improvements .....	Shorter of term of lease or life of asset

When the depreciable assets are replaced, retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the respective accounts and any gains or losses on disposition are recognized in income.

Betterments, renewals and extraordinary repairs, which increase the value or extend the life of the asset, are capitalized. Repairs and maintenance costs are expensed as incurred.

### Capitalized Software Costs

We capitalize the cost of internal-use software, which has a useful life in excess of one year in accordance with Statement of Position (SOP) No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Capitalized computer software costs are amortized using the straight-line method over a period of three years. Amortization of capitalized software costs included in depreciation and amortization in the consolidated statements of income was \$12,020, \$13,277 and \$14,107 for the years ended December 31, 2004, 2005 and 2006, respectively.

### Deferred Costs

We amortize deferred financing costs, which are included in deferred costs on the accompanying consolidated balance sheet, using the effective interest method and record such amortization as interest expense. Amortization of debt discount and annual commitment fees for unused portions of available borrowings are also recorded as interest expense.

Deferred costs also include direct and incremental costs related to customer implementations of our number portability services, for which the revenues are also being deferred. These costs are being recognized over the same period as the revenues, which is the customer's initial contract term.

### Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill is not amortized, but is tested for impairment at the reporting-unit level, at least annually, or more frequently if indicators of impairment arise, in accordance with the provisions of Statement of Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and Other Intangible Assets*. A reporting unit is an operating segment or one level below an operating segment, referred to as a component. We have not identified any components within our single operating segment and, hence, have a single reporting unit for purposes of our goodwill impairment test.

### Identifiable Intangible Assets

We amortize identifiable intangible assets with other than indefinite lives over their contractual or estimated useful lives using the straight-line method. As of December 31, 2005 and 2006, accumulated amortization totaled \$46,348 and \$58,779, respectively.

### Impairment Losses

We evaluate our depreciable and amortizable long-lived assets including property and equipment, capitalized software and amortizable identifiable intangible assets, for impairments under Statement of Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long Lived Assets*. In accordance with SFAS 144, we utilize the three-step approach for recognizing and measuring the impairment of assets to be held and used. That is, (1) we consider whether indicators of impairment are present; (2) if indicators of impairment are present, we determine whether the sum of the estimated undiscounted future cash flows attributable to the long-lived asset in question is less than its carrying amount; and (3) if less, we recognize an impairment loss based on the excess of the carrying amount of the long-lived asset over its respective fair value. Fair value is estimated based on discounted future cash flows. Assets to be sold must be stated at the lower of the assets' carrying amount or fair value and depreciation is no longer recognized.

### Income Taxes

Syniverse Inc. files a consolidated income tax return with its wholly-owned subsidiaries and therefore the accompanying financial statements include a provision for income taxes related to Syniverse Inc. and its subsidiaries using Statement of Financial Accounting Standards No. 109 (SFAS 109), *Accounting for Income Taxes*.

### Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes foreign currency translation adjustments and unrealized gains and losses on marketable securities classified as available-for-sale. Accumulated other comprehensive income (loss) as of December 31, 2005 and 2006 is as follows:

	December 31, 2005	December 31, 2006
Net unrealized gain on investments . . . . .	\$ 118	\$—
Foreign currency translation gain (loss) . . . . .	(188)	406
Accumulated other comprehensive income (loss) . . . . .	<u>\$ (70)</u>	<u>\$406</u>

### **Available-for-Sale Securities**

Our investments in equity securities are composed of a less than 10% ownership in a small publicly held company, and are categorized as available-for-sale as defined by Statement of Financial Accounting Standards No. 115 (SFAS 115), *Accounting for Certain Investments in Debt and Equity Securities*. These equity securities are included in other current assets in the accompanying consolidated balance sheets and are recorded at fair value based on quoted market prices. The cost of each equity security is determined primarily on a specific identification method. Unrealized holding gains and losses are reflected, net of income tax, as a separate component of accumulated other comprehensive income (loss). At December 31, 2005 and 2006, available-for-sale securities had a fair value of \$118 and \$0, respectively. Because the cost of these securities had previously been written off due to other-than-temporary declines, the fair value of these securities reflects unrealized holding gains of \$118 and \$0 at December 31, 2005 and 2006, respectively. As of December 31, 2006, we no longer had any investment in these securities.

### **Interest in Joint Venture**

We hold a 5% interest in the joint venture mTLD Top Level Domain, Ltd., a joint venture formed to provide mobile data and content domain name registry services and development guidelines. We account for this investment using the cost method of accounting. As of December 31, 2006, our investment was \$888 and is included in other assets.

### **Foreign Currency Translation**

In accordance with Statement of Financial Accounting Standard No. 52 (SFAS 52), *Foreign Currency Translation*, income and expense accounts of foreign operations are translated at the weighted average exchange rates during the year. Assets, including goodwill, and liabilities of foreign operations that operate in a local currency environment are translated to U.S. dollars at the exchange rates in effect at the balance sheet date, with the related translation gains or losses reported as a separate component of stockholder's equity.

### **Segment Reporting**

For all periods reported, we operated as a single segment, since our chief operating decision maker decides resource allocations on the basis of our consolidated financial results. For the years ended December 31, 2004, 2005 and 2006, we derived 88.6%, 86.0% and 77.4%, respectively, of our revenues from customers in the United States.

### **Net Income (Loss) Per Common Share**

We compute net income (loss) per common share in accordance with Statement of Financial Accounting Standards No. 128, *Earnings Per Share* (SFAS 128). Basic net income (loss) per common share includes no dilution and is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of fully vested common shares outstanding for the period. Our basic weighted average shares outstanding for the year ended December 31, 2006 excludes 295,363 shares held by our management, which represent the weighted average number of shares, which were not fully vested. There were no unvested shares outstanding in 2004. Diluted net income (loss) per common share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. As of December 31, 2004, 2005 and 2006, options to purchase 306,251, 423,647, and 664,658 shares of common stock, respectively, were outstanding. Due to the anti-dilutive nature of the options and the class A cumulative redeemable convertible preferred stock, these were not considered and thus there is no effect on the calculation of weighted average shares for diluted net loss per common share for the year ended December 31, 2004. As a result, the basic and diluted net losses per common share amounts are identical for that year. However, for the years ended December 31, 2005 and 2006, unvested common stock held by our management and the outstanding options to purchase common stock were used in the calculation of dilutive net income per common share.

The following table displays the computation of net income (loss) per common share:

	2004	2005	2006
Basic and diluted net income (loss) per common share:			
Net income (loss) attributable to common stockholders . . . . .	\$ (16,501)	\$ 5,609	\$ 89,724
Determination of basic and diluted shares:			
Basic weighted-average common shares outstanding . . . . .	39,837,630	61,973,251	66,942,944
Unvested common stock . . . . .	—	962,415	295,363
Potentially dilutive stock options and restricted stock . . . . .	—	42,758	60,039
Diluted weighted-average common shares outstanding . . . . .	39,837,630	62,978,424	67,298,346
Basic net income (loss) per common share . . . . .	\$ (0.41)	\$ 0.09	\$ 1.34
Diluted net income (loss) per common share . . . . .	\$ (0.41)	\$ 0.09	\$ 1.33

### Correction of Error

During the preparation of our 2006 annual financial statements, we discovered a customer billing error related to one of our services. As a result, we determined that our revenues were overstated during the period from October 2005 to September 2006 by \$2,370, of which \$124 related to the fourth quarter of 2005. We reviewed the impact of the error on the fourth quarter of 2005 and through the third quarter of 2006 and concluded that the cumulative impact of the error was not material to the previously reported quarters. As a result, we have recorded the correction of the full amount of the error in the fourth quarter of 2006.

### Reclassifications

Certain prior year balances have been reclassified to conform to the 2006 presentations.

### 3. Recent Accounting Pronouncements

In May 2005, the FASB issued Statement of Financial Accounting Standard No. 154, *Accounting Changes and Error Corrections* (SFAS 154), a replacement of Accounting Principles Board (APB) Opinion No. 20, *Accounting Changes*, and Statement of Financial Accounting Standard No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 changes the requirements for the accounting for and the reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition by recording a cumulative effect adjustment within net income in the period of change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the specific period effects or the cumulative effect of the change. SFAS 154 was effective January 1, 2006. The adoption of SFAS 154 did not have an impact on our financial position or results of operation.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective starting January 1, 2007. We are currently evaluating the impact, if any, that FIN 48 will have on our financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective January 1, 2008. We have not yet evaluated the impact, if any, that SFAS 157 will have on our financial position or results of operations.

#### 4. Acquisition of IOS North America

On September 30, 2004, we acquired certain assets of IOS North America. We paid \$53,662 on the date of the acquisition and an additional \$1,086 in January 2005 resulting from the settlement of the final working capital adjustment pursuant to the Purchase Agreement which was accrued as of December 31, 2004. We also incurred acquisition-related costs of \$1,731. IOS North America offers services to voice and data providers including clearing and settlement for roaming and business intelligence reporting. We believe this acquisition expands our North American customer base and increases the scale of our business. The acquisition was financed through \$44,500 of increased borrowings under our senior credit facility and available cash.

The acquisition was accounted for using the purchase method of accounting. The total purchase price of \$56,479 was allocated to the assets and liabilities based upon their fair value as of the date of the transaction. The fair value of the intangible assets (the customer base and capitalized software) was determined by a third-party appraisal firm using an income approach. The customer base and capitalized software were valued using the discounted future cash flows and the relief from royalty methods, respectively. The valuations considered historical financial results and expected and historical trends. The estimated future cash flows for the customer base were discounted using a cost of capital or cost of equity depending on the expected duration of the customer relationship at annually declining rates from 13.0% to 8.0% to represent the decreased risk as each year passes. The future cash flows for the capitalized software were discounted using a cost of capital of 13.0%. The 13.0% cost of capital was based upon an analysis of the cost of capital for guideline companies within the technology industry. The useful lives of the intangible assets were based on the period over which we expect these assets to contribute directly or indirectly to the future cash flows. In determining the useful life of the IOS North America customer base, we considered this specific customer base, our historical customer attrition rate and known or expected customer losses. These intangible assets are being amortized over their estimated lives using the straight-line method. The fair values assigned to the remaining tangible assets and liabilities were internally developed. The purchase price over the fair values assigned to the net assets has resulted in the recognition of \$31,194 in goodwill, which is subject to at least an annual impairment review. We expect that the total amount of goodwill recorded will be deductible for tax purposes.

In connection with the IOS North America acquisition, we began to formulate a restructuring plan, which consisted primarily of the relocation of key IOS North America employees and the elimination of redundant positions. As a result of this plan, we recognized \$1,888 of employee relocation and termination benefits as liabilities in the purchase accounting in accordance with Emerging Issues Task Force Issue No. 95-3 (EITF 95-3), *Recognition of Liabilities in Connection with a Purchase Business Combination*. As of December 31, 2006, we have paid all amounts relating to these benefits.

Based upon management's estimates of fair value, the allocation of the total purchase price is as follows:

	<u>Amount</u>	<u>Estimated Life</u>
<b>Purchase price allocation:</b>		
Unbilled accounts receivable .....	\$ 2,057	
Property and equipment .....	235	1-3 years
Capitalized software .....	600	9 months
Goodwill .....	31,194	
Identifiable intangibles:		
Customer base .....	24,700	13 years*
Total assets .....	58,786	
Accounts payable .....	(89)	
Accrued termination and relocation benefits .....	(1,888)	
Other accrued liabilities .....	(330)	
Total purchase price .....	<u>\$56,479</u>	

\* Based on weighted average

Since the IOS North America acquisition was completed as of the close of business on September 30, 2004, IOS North America's operating results have only been included in our consolidated statement of operations since that date.

We entered into an agreement with Electronic Data Systems Corporation ("EDS") to provide us certain transition services for a period of up to nine months after the acquisition date. These services include data center and infrastructure, payroll services, accounts receivable and accounts payable. EDS charges us approximately \$500 per month under this agreement. Since the acquisition and through December 31, 2005, we had incurred \$4,569 in transition services expenses with EDS.

## 5. Acquisition of Interactive Technology Holdings Limited Business

On June 16, 2006, we acquired the capital stock of Perfect Profits International (PPIL), which comprises the Interactive Technologies Holdings Limited business (ITHL), from Interactive Technologies Holdings Limited for \$45,012 in cash including preliminary working capital adjustments and earn-out to the sellers of approximately \$6,160, which has not been paid. The purchase agreement contains certain earn-out provisions, pursuant to which the sellers may receive up to \$7,000 in additional cash consideration based upon achieving certain levels of revenues and EBITDA. Additionally, in connection with the acquisition, we incurred \$1,106 in acquisition related costs. Headquartered in Hong Kong, ITHL is a leading provider of value-added services to carriers in the Asia Pacific region. We believe the acquisition expands our footprint in the Asia Pacific region and adds a complementary customer base, new products, advanced development capabilities and in-region customer support.

The acquisition was accounted for using the purchase method of accounting. The total purchase price of \$45,012 was allocated to the assets and liabilities based upon their fair value as of the date of the transaction. The fair value of the intangible assets (in-process research and development, completed technologies and customer relationship) and deferred revenues was determined by a third-party appraisal firm, using an income approach and estimates and assumptions provided by management. The following table summarizes the allocation of the purchase price based on the estimated fair value of the net assets acquired and liabilities assumed at the acquisition date.

	<u>Amount</u>	<u>Estimated Useful Life</u>
Cash .....	\$ 1,131	
Accounts receivable .....	7,180	
Other current assets .....	7,240	
Property and equipment .....	1,085	1 – 5 years
In-process research and development .....	167	
Completed technologies .....	6,514	6 years
Customer relationship .....	4,298	7 years
Goodwill .....	<u>31,619</u>	
Total assets .....	\$59,234	
Accounts payable .....	3,093	
Other accrued liabilities .....	9,051	
Deferred tax liabilities .....	<u>2,078</u>	
Total liabilities .....	\$14,222	
Total purchase price .....	<u>\$45,012</u>	

The completed technologies and customer relationship were valued using discounted future cash flows. The valuations considered historical financial results and expected and historical trends. The future cash flows for the completed technologies and customer relationship were discounted using a cost of capital of 20.0%. The 20.0%

cost of capital was based upon an analysis of the cost of capital for guideline companies within the technology industry. The useful lives of the intangible assets were based on the period over which we expect these assets to contribute directly or indirectly to the future cash flows. The estimated useful lives of the completed technologies and customer relationship intangible assets are 6 and 7 years, respectively, and are being amortized over their estimated useful lives using the straight-line method.

In-process research and development (IPR&D) represents incomplete research and development projects that had not reached technological feasibility and had no alternative future use when acquired. Technological feasibility is established when an enterprise has completed all planning, design, coding and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features and technical performance requirements. The value of the IPR&D was determined using an income approach by considering estimated future revenues, cost to develop the acquisition-related IPR&D into commercially viable products and estimating the resulting net cash flows from the project when completed, which were discounted to their present value using a cost of capital of 25.0% due to the uncertainty of the future economic benefits. The acquired in-process research and development of \$167 was written-off to general and administrative expense in accordance with FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*.

Deferred revenues (included in other accrued liabilities) are derived from maintenance contracts. The liability related to the deferred revenue was estimated by a third-party appraisal firm using a direct cost approach. The direct cost approach determines fair value by estimating the costs relating to fulfilling the obligation plus a normal profit margin. The estimated costs to fulfill the support obligations were based on the historical direct costs related to providing the support. As a result, we recorded an adjustment to reduce the carrying value of deferred revenue by \$226 to \$241, which represents our estimate of the fair value of the contractual obligations assumed.

The fair values assigned to the remaining tangible assets and liabilities were internally developed. The purchase price over the fair values assigned to the net assets has resulted in the recognition of \$31,619 in goodwill, which is subject to at least an annual impairment review. We expect that the total amount of goodwill recorded will be deductible for tax purposes.

Since the acquisition was completed as of the close of business on June 16, 2006, ITHL's operating results have only been included in our consolidated statement of operations since that date. The unaudited pro forma results presented below include the effects of the acquisition as if it had been consummated beginning on January 1, 2005. Pro forma adjustments arise primarily due to the asset revaluation. Because the selected pro forma consolidated financial information is based upon ITHL's financial position and operating results during the period when ITHL was not under the control, influence or management of Syniverse, the unaudited selected pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been consummated on January 1, 2005:

	Year Ended December 31,	
	2005	2006
	(unaudited)	(unaudited)
Revenues .....	\$363,728	\$350,648
Operating income .....	96,360	79,653
Net income .....	8,443	92,569

## 6. Stock-Based Compensation

Syniverse has three stock-based compensation plans, the Founders' Stock Option Plan for non-employee directors, executives and other key employees of Syniverse Inc., the Directors' Stock Option Plan, which provides for grants to independent directors, and the 2006 Long-Term Equity Incentive Plan, which provides incentive compensation through grants of incentive or non-qualified stock options, restricted stock, restricted



stock units, stock appreciation rights ("SARs"), performance awards or any combination of the foregoing, all of which are described below. Prior to fiscal 2006, we accounted for those plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related Interpretations, as permitted by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). Compensation costs related to stock options granted at fair value under those plans were not recognized in the consolidated statements of operations. In December 2004, the FASB issued SFAS 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). Under the new standard, companies are no longer able to account for stock-based compensation transactions using the intrinsic value method in accordance with APB 25.

Effective January 1, 2006, we adopted SFAS 123(R), which requires companies to account for such stock-based compensation using a fair-value method and recognize the expense in the consolidated statement of income. Using the modified-prospective-transition method, stock-based compensation cost recognized beginning January 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated. Accordingly, during the year ended December 31, 2006, we recorded stock-based compensation expense for awards granted prior to but not yet vested as of January 1, 2006. For the year ended December 31, 2006, stock-based compensation expense for awards granted and our Employee Stock Purchase Plan, as discussed later in this note, was \$1,820. The impact to our income from operations of recording stock-based compensation for the year ended December 31, 2006 was as follows:

	<b>Year Ended December 31, 2006</b>
Cost of operations .....	\$ 153
Sales and marketing .....	378
General and administrative .....	1,289
Total stock-based compensation .....	<u>\$1,820</u>

### ***Option Plans***

On May 16, 2002, Syniverse Inc.'s Board of Directors adopted a Founders' Stock Option Plan for non-employee directors, executives and other key employees of Syniverse Inc. In addition, the Board of Directors adopted a Directors' Stock Option Plan on August 2, 2002, which provides for grants to independent directors to purchase 20,000 shares upon election to the board. The plans have a term of five years and provided for the granting of options to purchase shares of Syniverse Inc.'s non-voting Class B common stock. As part of our initial public offering, we reclassified the Class B common stock into our common stock and hence all of our options now provide for purchase of our common stock.

Under the plans, the options have or will have an initial exercise price based on the fair value of each share, as determined by the Board. The per share exercise price of each stock option will not be less than the fair market value of the stock on the date of the grant or, in the case of an equity holder owning more than 10% of the outstanding stock of Syniverse Inc., the price for incentive stock options is not less than 110% of such fair market value. The Board of Syniverse Inc. reserved 402,400 shares of common stock, par value \$.001 per share for issuance under the Founders' plan and 160,360 shares under the Directors' plan. We do not currently expect to repurchase shares from any source to satisfy such obligation under the Plan.

As of December 31, 2006, there were options to purchase 264,298 shares outstanding under the Founder's Stock Option Plan and options to purchase 130,360 shares outstanding under the Directors' Stock Option Plan. With the adoption of the 2006 Long-Term Equity Incentive Plan on May 9, 2006 as noted below, the Board of Syniverse, Inc. will no longer grant options from the Founder's Stock Option Plan or the Directors' Stock Option Plan.

All options issued under the plans are presumed to be nonqualified stock options unless otherwise indicated in the option agreement. Each option has an exercisable life of no more than 10 years from the date of grant for both nonqualified and incentive stock options in the case of grants under the Founders' Stock Option Plan and under the Directors' Stock Option Plan. Generally, the options under these plans vest 20% after the first year and 5% per quarter thereafter.

### ***2006 Long-Term Equity Incentive Plan***

On May 9, 2006, our Board of Directors adopted the 2006 Long-Term Equity Incentive Plan (the "Incentive Plan"). The Incentive Plan provides incentive compensation through grants of incentive or non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights ("SARs"), performance awards, or any combination of the foregoing. The Incentive Plan is designed to allow for the grant of long term incentive awards that conform to the requirements for tax deductible "performance based" compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended. As of the year ended December 31, 2006, 270,000 options, which vest 33 1/3% per year, were granted to certain executive officers. As of the year ended December 31, 2006, 725,000 unvested restricted shares outstanding, which vest 20% per year, were granted to certain executive officers and other employees.

Under the Incentive Plan, 6,000,000 shares of common stock were authorized for issuance, of which 1,000,000 shares may be issued as restricted stock, restricted stock units or performance shares. Of these 1,000,000 shares authorized, 725,000 shares have been issued. The number of shares and price per share is determined by the Compensation Committee (the "Committee") for those awards granted. However, the exercise price of any option may not be less than 100% of the fair market value of a share of common stock on the date of grant and the exercise price of an incentive option awarded to a person who owns stock constituting more than 10% of Syniverse's voting power may not be less than 110% of the fair market value on the date of grant. Those eligible to participate in the Incentive Plan are limited to directors (including non-employee directors), officers (including non-employee officers) and employees of Syniverse, Inc. and its subsidiaries selected by the Committee, including participants located outside the United States. Determinations made by the Committee under the Incentive Plan need not be uniform and may be made selectively among eligible individuals under the Incentive Plan.

### ***Employee Stock Purchase Plan***

On May 9, 2006, our Board of Directors adopted the 2006 Employee Stock Purchase Plan (the "Purchase Plan"). All employees, including Directors who are employees and all employees of any subsidiary, are eligible to participate in any one or more of the offerings to purchase Common Stock under the Purchase Plan. Eligible employees may purchase a limited number of shares of Syniverse, Inc.'s common stock at 85% of the market value during a series of offering periods. The first offering in 2006 is from August 1 through November 30. Beginning in 2007, each offering period is divided into semi-annual purchase intervals beginning June 1 and December 1 and has a maximum term of six months. The purchase price is set based on the price on the New York Stock Exchange at the close of either the first or the last trading day of the offering period, whichever is lower. From the initial offering date of August 1, 2006 and through December 31, 2006, employees purchased approximately 15,094 shares at an average price of \$11.19 per share. Compensation expense related to the Purchase Plan over the same period was \$46. At December 31, 2006, approximately 484,906 shares were reserved for future issuance. As of the year ended December 31, 2006, there were 87 enrollments into the Purchase Plan.

The fair value of shares issued under the Purchase Plan is estimated on the commencement date of each offering period using the Black-Scholes option pricing model. The following weighted-average assumptions were used in the model for the first offering period in 2006:

Risk-free interest rate .....	5.14%
Volatility factor .....	34.0
Dividend yield .....	—
Expected life (in months) .....	4.01

## Accounting for Stock-Based Compensation

### Stock Options

The fair values of stock option grants are amortized as compensation expense on a straight-line basis over the vesting period of the grants. Compensation expense recognized is shown in the operating activities section of the consolidated statements of cash flows. The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31,	
	2006	2005
Risk-free interest rate .....	4.56%	4.27%
Volatility factor .....	34.0	33.8
Dividend yield .....	—	—
Weighted average expected life of options .....	5	5

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Prior to February 10, 2005, Syniverse Inc.'s common stock was not traded on public markets. Therefore a volatility of 0% was used in the Black-Scholes option valuation model for options issued prior to our initial public offering. Due to the limited time in which our stock was publicly traded, we used the average volatility factor of eight comparable companies in determining our pro forma compensation for stock options granted at the time of our initial public offering and through December 31, 2006. Based on the results produced from the Black-Scholes option-pricing model, our pro forma compensation amounts are not materially different from the intrinsic value compensation expense amounts and hence are not disclosed. For the year ended December 31, 2005, pro forma fair value amounts of compensation expense as applied in accordance with the fair value recognition provisions of SFAS 123 were not materially different from the intrinsic value method because the fair value of the options were not material and hence are not disclosed.

SFAS 123(R) requires companies to estimate potential forfeitures of stock grants and adjust compensation cost recorded accordingly. Due to the minimal number of forfeitures we have experienced during the limited life of our option plans, our forfeiture rate is not material to our fair value calculation; therefore, we currently use actual forfeitures in our calculations.

A summary of our stock-based compensation activity for the year ended December 31, 2006 is as follows:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at December 31, 2005 .....	423,477	\$13.33		
Granted .....	270,000	\$16.13		
Exercised .....	(11,281)	\$12.43		
Cancelled or expired .....	(17,538)	\$14.36		
Outstanding at December 31, 2006 .....	<u>664,658</u>	\$14.45	8.09	\$373
Vested at December 31, 2006 .....	<u>219,956</u>	\$12.92	6.58	\$456
Exercisable at December 31, 2006 .....	<u>219,956</u>	\$12.92	6.58	\$456

Outstanding options as of December 31, 2006 and 2005 had a weighted average remaining contractual life of 8.1 and 7.6 years, respectively. During the year ended December 31, 2006 and 2005:

- the weighted average fair value per share of stock-based compensation granted to employees was \$6.05 and \$5.76, respectively;

- the total intrinsic value of stock options exercised was \$47 and \$3, respectively; and
- the total fair value of stock options that vested during both periods was \$214 and \$0.3, respectively.

During the year ended December 31, 2006, \$140 was received for the exercise of stock options. No tax benefits were realized from the exercise of those options. Cash was not used to settle any equity instruments previously granted. There was no stock-based compensation cost capitalized into assets as of December 31, 2006.

A summary of our unvested shares activity for the year ended December 31, 2006 is as follows:

<u>Stock Options</u>	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at December 31, 2005 .....	283,960	\$2.61
Granted .....	270,000	\$6.11
Vested .....	(94,217)	\$2.05
Forfeited .....	(15,041)	\$3.89
Unvested at December 31, 2006 .....	<u>444,702</u>	<u>\$4.81</u>

As of December 31, 2006, there was \$1,865 of total unrecognized compensation cost related to stock options granted. The recognition period for the remaining unrecognized stock-based compensation cost is approximately five years.

#### *Restricted Stock*

Restricted stock awards are issued and measured at market value on the date of grant. Generally 20% become exercisable per year from date of grant. Vesting of restricted stock is based solely on time vesting.

Changes in our restricted stock for the year ended December 31, 2006 were as follows:

<u>Restricted Stock</u>	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at December 31, 2005 .....	—	\$ —
Granted .....	770,000	\$15.35
Vested .....	—	\$ —
Forfeited .....	(45,000)	\$15.49
Unvested at December 31, 2006 .....	<u>725,000</u>	<u>\$15.35</u>

As of December 31, 2006, unrecognized compensation expense related to the unvested portion of our restricted stock awards was \$9,889, which is expected to be recognized over a period of approximately five years.

## **7. Concentration of Business**

Financial instruments that subject us to concentrations of credit risk are limited to our trade receivables from major customers. Receivables from one customer were 11.5% and 10.7% of net accounts receivable at December 31, 2005 and 2006. Sales to one customer were 20.3% of total revenues for the year ended December 31, 2004. Sales to two customers were approximately 16.7% and 10.3%, respectively, of total

revenues for the year ended December 31, 2005. Sales to one customer were 17.6% of total revenues for the year ended December 31, 2006. No other customer represented more than 10% of revenues for the years ended December 31, 2004, 2005 and 2006, although a significant amount of our remaining revenues were generated from services provided to a small number of other wireless providers.

## 8. Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivables, accounts payable and revolving line of credit are reflected in the financial statements at their carrying value, which approximate their fair value due to the short maturity.

Available-for-sale securities are carried at fair value based on quoted market prices and are included in other current assets in the accompanying consolidated balance sheets. The cost of each equity security is determined primarily on a specific identification method. Unrealized holding gains and losses are reflected, net of income tax, as a separate component of accumulated other comprehensive income (loss). At December 31, 2005 and 2006, available-for-sale securities had a fair value of \$118 and \$0, respectively. Because the cost of these securities had previously been written off due to other-than-temporary declines, the fair value of these securities reflects unrealized holding gains and losses of \$118 and \$0 at December 31, 2005 and 2006, respectively. As of December 31, 2006, we no longer had any investment in these securities.

The estimated fair values of our Term Note B, 12 3/4% Senior Subordinated Notes due 2009 and 7 3/4% Senior Subordinated Notes due 2013 are based on prices prevailing in the market.

The carrying amounts and fair values of our long-term debt as of December 31, 2005 and 2006 are as follows:

	December 31, 2005		December 31, 2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Term Note B .....	\$178,325	\$180,331	\$136,561	\$137,073
12 3/4% Senior Subordinated Notes, due 2009 .....	14,469	15,486	—	—
7 3/4% Senior Subordinated Notes, due 2013 .....	175,000	176,750	175,000	173,906

## 9. Property and Equipment

Property and equipment, net, consist of the following:

	December 31, 2005	December 31, 2006
Equipment .....	\$ 70,434	\$ 80,173
Furniture and fixtures .....	2,662	3,670
Leasehold improvements .....	2,712	10,380
Construction in progress .....	11,242	1,036
	87,050	95,259
Accumulated depreciation .....	(43,624)	(52,379)
Total .....	<u>\$ 43,426</u>	<u>\$ 42,880</u>

Depreciation expense related to property and equipment was \$12,706, \$14,813 and \$13,632 for the years ended December 31, 2004, 2005 and 2006, respectively.

## 10. Capitalized Software

Capitalized software development costs, net, consist of the following:

	December 31, 2005	December 31, 2006
Software .....	\$ 97,939	\$108,994
Accumulated amortization .....	(45,265)	(57,191)
Total .....	<u>\$ 52,674</u>	<u>\$ 51,803</u>

In 2004, we recognized impairment charges of \$8,982 related to capitalized software for our call processing platforms which is a declining line of business for us and the planned discontinuation of a carrier's use of our access billing services. The impairment charges were determined based on the difference between the carrying values and the fair values of the assets, determined by discounted cash flow analysis.

Amortization expense related to capitalized software was \$12,020, \$13,277 and \$14,107 for the years ended December 31, 2004, 2005 and 2006, respectively.

## 11. Identifiable Intangible Assets

Identifiable intangible assets consist of the following:

	December 31, 2005	December 31, 2006
Definite lived intangible assets		
Customer contracts .....	506	576
Less accumulated amortization .....	(205)	(351)
Customer contract, net .....	301	225
Customer base .....	236,169	240,457
Less accumulated amortization .....	(46,143)	(58,428)
Customer base, net .....	190,026	182,029
Total intangibles .....	<u>\$190,327</u>	<u>\$182,254</u>

During the fourth quarter of 2004, we recorded an impairment charge of \$5,074 on our customer base intangible assets resulting from a technology interoperability customer notifying us that it did not intend to renew its contract for these services. These impairment charges are classified in the caption "Impairment losses on intangible assets" in the consolidated statement of operations.

Intangible assets with other than indefinite lives are amortized over their estimated useful lives. The weighted average amortization period is 5 years for customer contracts and 19.4 years for customer base. Amortization expense related to identifiable intangibles was \$17,246, \$18,726 and \$12,600 for the year ended December 31, 2004, 2005 and 2006, respectively. Expected amortization expenses related to acquired intangible assets for each of the next five years are the following: 2007—\$13,784, 2008—\$13,775, 2009—\$13,678, 2010—\$13,678 and 2011—\$13,678.

## 12. Leasing Arrangements

We lease certain facilities, equipment and an aircraft for use in our operations, all of which are operating leases. Total rent expense under operating leases amounted to \$6,775 in 2004, \$6,736 in 2005 and \$6,707 in 2006. These leases contain various renewal options that could extend the terms of the leases beyond 2011.

Effective March 1, 2002, we entered into an operating lease for the use of an executive aircraft. The lease is for seven years, ending March 1, 2009, and requires monthly payments plus actual expenses for maintenance, fuel and other usage related charges. We had an option to purchase the aircraft 36 months after the commencement date of the lease at a price of \$6,650 but did not exercise this option. Our former CEO and one of his affiliated entities were entitled to use the aircraft. An affiliate entity owned by the former CEO paid 25% of the monthly lease and other fixed costs for the aircraft and reimbursed us for all operating costs of the aircraft in connection with such use through December 31, 2002. Effective January 1, 2003, our former CEO was required to pay for the actual use of the aircraft related to the affiliated entity. As of December 31, 2006, \$89 was owed to us under this arrangement. Amounts incurred, net of the estimated amount due from our former CEO, are included in rent expense above.

On February 28, 2005 we entered into an agreement to lease 199,000 square feet for our new corporate headquarters facility located in Tampa, Florida. The lease term is eleven years commencing on November 1, 2005 with lease payments beginning one year following the commencement date. The lease agreement for our former corporate headquarters expired October 31, 2006, however, we negotiated an early termination in accordance with the agreement. Under Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146), a liability for costs to terminate a contract before the end of its term should be recognized and measured at its fair value. For the year ended December 31, 2006, we recorded a lease termination loss of \$1,280 which is included in general and administrative expenses, and a liability for lease termination costs for the same amount. As of December 31, 2006, all costs associated with the lease termination were paid and the liability was reduced to zero.

As of December 31, 2006, the aggregate future minimum lease commitments under all of these leases are as follows:

Year ended December 31, 2006 .....	\$ 7,437
Year ended December 31, 2007 .....	6,598
Year ended December 31, 2008 .....	5,367
Year ended December 31, 2009 .....	5,043
Year ended December 31, 2010 .....	5,115
Thereafter .....	28,832
	<u>\$58,392</u>

### 13. Debt

The following are the amounts outstanding, net of discounts, at December 31, 2005 and 2006:

	December 31, 2005	December 31, 2006
Term Note B due February 2012, interest payable quarterly, principal payable quarterly beginning March 2005 .....	\$178,325	\$136,561
\$245,000 Senior Subordinated Notes due February 2009, bearing interest at 12 3/4%, interest payable semi-annually beginning August 2002, principal payable upon maturity—net of discount of \$ 31 .....	14,469	—
\$175,000 Senior Subordinated Notes due August 15, 2013, bearing interest at 7 3/4%, interest payable semi-annually beginning February 2006, principal payable upon maturity .....	175,000	175,000
Total .....	367,794	311,561
Less current portion (a) .....	(16,270)	(1,393)
Long-term debt .....	<u>\$351,524</u>	<u>\$310,168</u>

- (a) Current portion at December 31, 2005 includes the 12.75% Senior Subordinated Notes due February 2009 of \$14,469 which were redeemed in total on February 1, 2006 and the senior credit facility of \$1,801. Current portion at December 31, 2006 was determined using the maturities under the senior credit facility entered into February 15, 2005 as described below.

Maturities of long-term debt for the years succeeding December 31, 2006 are as follows:

2007 .....	\$ 1,393
2008 .....	1,393
2009 .....	1,393
2010 .....	1,393
2011 .....	1,393
Thereafter .....	<u>304,596</u>
Total .....	<u>\$311,561</u>

#### *Senior Credit Facility*

On February 15, 2005, Syniverse Technologies, Inc. entered into a \$282.0 million Credit Agreement (the "senior credit facility") with Lehman Brothers Inc., as lead arranger and book manager, LaSalle Bank National Association, as syndication agent, and Lehman Commercial Paper, as administrative agent. The obligations under the Credit Agreement are unconditionally guaranteed by Syniverse Holdings, Inc. and the U.S. domestic subsidiaries of Syniverse Technologies, Inc (the "Guarantors").

The senior credit facility provides for aggregate borrowings of up to \$282,000 as follows:

- a revolving credit facility of up to \$42,000 in revolving credit loans and letters of credit which expires on February 15, 2011; available for general corporate purposes including working capital, capital expenditures and acquisitions
- a Term Note B facility of \$240,000 in term loans maturing on February 15, 2012. Principal outstanding as of December 31, 2006 was \$136,561.

We borrowed \$240,000 under the senior credit facility on February 15, 2005.

The revolving line of credit and the Term Note B each bear interest at variable rates, at Syniverse's option, of either:

- a base rate generally defined as the sum of (i) the higher of (x) the prime rate (as quoted on Page 5 of the British Banking Association Telerate screen) and (y) the federal funds effective rate, plus one half percent (0.50%) per annum and (ii) an applicable margin or,
- a LIBOR rate generally defined as the sum of (i) the rate at which Eurodollar deposits for one, two, three, six or nine months and, if available to the lenders under the applicable credit facility, twelve months (as selected by us) are offered in the interbank Eurodollar market and (ii) an applicable margin.

The applicable margin for the base rate Term Note B loans is 1.00% if our consolidated leverage ratio is greater than or equal to 2.50 to 1 and 0.75% if our consolidated leverage ratio is less than 2.50 to 1. The applicable margin for the Eurodollar Term Note B loans is 2.00% if our consolidated leverage ratio is greater than or equal to 2.50 to 1 and 1.75% if our consolidated leverage ratio is less than 2.50 to 1. As of December 31, 2006, the applicable margin for the base rate Term Note B and Eurodollar Term Note B was 0.75% and 1.75%, respectively.



The applicable margin for the base rate revolving loans is 0.75% if our consolidated leverage ratio is greater than or equal to 2.50 to 1, 0.50% if our consolidated leverage ratio is greater than or equal to 2.00 to 1 but less than 2.50 to 1, and 0.25% if our consolidated leverage ratio is less than 2.00 to 1. The applicable margin for the Eurodollar revolving loans is 1.75% if our consolidated leverage ratio is greater than or equal to 2.50 to 1, 1.50% if our consolidated leverage ratio is greater than or equal to 2.00 to 1 but less than 2.50 to 1, and 1.25% if our consolidated leverage ratio is less than 2.00 to 1. As of December 31, 2006, the applicable margin for the base rate revolving loans and Eurodollar revolving loans was 0.50% and 1.50%, respectively.

The Term Note B facilities are subject to equal quarterly installments of principal as set forth in the table below:

<u>Year</u>	<u>Term Note B</u>
2007 .....	\$ 1,393
2008 .....	1,393
2009 .....	1,393
2010 .....	1,393
2011 .....	1,393
Thereafter .....	<u>129,596</u>
Total .....	<u>\$136,561</u>

Voluntary prepayments of principal outstanding under the revolving loans are permitted at any time without premium or penalty, upon the giving of proper notice. In addition, we are required to prepay amounts outstanding under the senior credit facility in an amount equal to:

- 100% of the net cash proceeds of any incurrence of certain indebtedness excluding the Incremental Facility and any indebtedness used to prepay the Senior Subordinated Notes;
- 100% of the net cash proceeds of any sale or other disposition (including as a result of casualty or condemnation) by Syniverse Holdings, Inc. or its domestic subsidiaries of any assets in excess of \$5.0 million if these proceeds are not reinvested within 360 days from the sale of the asset (except for the sale of inventory in the ordinary course of business and certain other dispositions)

We are required to pay a commitment fee on the difference between committed amounts and amounts actually utilized under the revolving credit facility at a rate of 0.50% per annum for any quarter which our consolidated leverage ratio is greater than 2.50 to 1 and 0.375% for any fiscal quarter in which our consolidated leverage ratio is equal to less than 2.50 to 1.

Under the terms of the new senior credit facility at least 25% of our funded debt must bear interest that is effectively fixed. To that extent, we may be required to enter into interest rate protection agreements establishing a fixed maximum interest rate with respect to a portion of our total indebtedness.

The loans and other obligations under the senior credit facility are guaranteed by Syniverse Inc., and each of Syniverse Inc.'s direct and indirect subsidiaries (other than certain foreign subsidiaries).

Our obligations under the senior credit facility and the guarantees are secured by:

- a perfected first priority security interest in all of our tangible and intangible assets and all of the tangible and intangible assets of Syniverse Inc. and each of its direct and indirect subsidiaries, subject to certain customary exceptions, and
- a pledge of (i) all of the capital stock of the direct and indirect domestic subsidiaries and (ii) two-thirds of the capital stock of certain first-tier foreign subsidiaries, if any.

#### *12¾% Senior Subordinated Notes due 2009*

The 12¾% Senior Subordinated Notes due 2009 are general unsecured obligations of Syniverse, and are unconditionally guaranteed by Syniverse Inc. and each of the domestic subsidiaries of Syniverse. At any time prior to February 1, 2005, Syniverse could redeem up to 35% of the aggregate principal amount of notes issued under the indenture (including additional notes, if any) at a redemption price of 112.75% of the principal amount, plus accrued and unpaid interest and liquidated damages, if any, to the redemption date, with the net cash proceeds of one or more equity offerings by Syniverse or a contribution to Syniverse's common equity capital made with the net cash proceeds of a concurrent equity offering by Syniverse Inc. or Syniverse LLC (but excluding any Excluded Capital Contribution, as defined, and any Reserved Contribution, as defined) provided that:

- At least 65% of the aggregate principal amount of notes issued under the indenture (including additional notes, if any) remains outstanding immediately after the occurrence of such redemption; and
- The redemption occurs within 60 days of the date of the closing of such equity offering.

On February 25, 2005, Syniverse completed a tender offer for 35% or \$85,750 in aggregate principal amount of its outstanding 12¾% Senior Subordinated Notes due 2009 at a premium of \$12,262 plus accrued interest of \$728.

On August 24, 2005, Syniverse completed a tender offer for \$144,750 in aggregate principal amount of its outstanding 12¾% Senior Subordinated Notes due 2009 at a premium of \$14,301, related fees of \$485 and accrued interest of \$1,179. In addition to the prepayment premium of \$14,301, the associated unamortized debt discount of \$1,574 and deferred finance costs of \$2,655 were recognized as loss on extinguishment of debt in the third quarter of 2005.

On February 1, 2006, Syniverse completed an early redemption for all remaining notes of \$14,500 in aggregate principal amount of its outstanding 12¾% Senior Subordinated Notes due 2009 at a premium of \$924.

#### *7¾% Senior Subordinated Notes Due 2013*

On August 24, 2005, Syniverse completed a private offering of \$175,000 of its 7¾% Senior Subordinated Notes due 2013. Interest on the notes will accrue at the rate of 7¾% per annum and will be payable semi-annually in arrears on February 15 and August 15, commencing on February 15, 2006. The net proceeds were used to tender \$144,750 of our outstanding 12¾% senior subordinated notes due 2009. On February 1, 2006, the remaining funds were used to redeem the remaining 12¾% senior subordinated notes due 2009 not tendered in August 2005 of \$14,500, plus payment of related premium of approximately \$924. The balance of funds necessary for the redemption were paid from cash on hand.

The 7¾% Senior Subordinated Notes due 2013 are general unsecured obligations of Syniverse, and are unconditionally guaranteed by Syniverse Inc. and each of the domestic subsidiaries of Syniverse. At any time prior to August 15, 2008, Syniverse may on any one or more occasions redeem up to 35% of the aggregate principal amount of notes issued under the indenture (including additional notes, if any) at a redemption price of 107.75% of the principal amount, plus accrued and unpaid interest and liquidated damages, if any, to the redemption date, with the net cash proceeds of one or more qualifying equity offerings by Syniverse or a contribution to Syniverse's common equity capital made with the net cash proceeds of a concurrent equity offering by the Parent (but excluding any reserved contribution); provided that:

- (1) at least 65% of the aggregate principal amount of notes issued under the indenture (including additional notes, if any) remains outstanding immediately after the occurrence of such redemption; and
- (2) the redemption occurs within 90 days of the date of the closing of such equity offering.

The notes may be redeemed, in whole or in part, at any time prior to August 15, 2009, at the option of Syniverse upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the notes redeemed plus the applicable premium as of, and accrued and unpaid interest and liquidated damages, if any, to, the applicable redemption date, subject to the rights of note holders on the relevant record date to receive interest on the relevant interest payment date.

Except pursuant to the two preceding paragraphs, the notes will not be redeemable at Syniverse's option prior to August 15, 2009. Syniverse is not prohibited, however, from acquiring the notes by means other than a redemption, whether pursuant to a tender offer or otherwise, assuming such acquisition does not otherwise violate the terms of the indenture.

After August 15, 2009, Syniverse may redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and liquidated damages, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on August 15 of the years indicated below, subject to the rights of note holders on the relevant record date to receive interest on the relevant interest payment date:

<u>Year</u>	<u>Percent</u>
2009 .....	103.875%
2010 .....	101.938%
2011 and thereafter .....	100.000%

Unless Syniverse defaults in the payment of the redemption price, interest will cease to accrue on the notes or portions thereof called for redemption on the applicable redemption date.

Syniverse is not required to make mandatory redemption or sinking fund payments with respect to the notes.

The notes contain various other provisions in the event of a change in control or asset sales, and they also contain certain covenants that will, among other things, limit Syniverse's ability to incur additional indebtedness and issue preferred stock, pay dividends, make other restricted payments and investments, create liens, incur restrictions on the ability of their subsidiaries to pay dividends or other payments to them, sell assets, merge or consolidate with other entities, and enter into transactions with affiliates.

On December 8, 2005, Syniverse completed an exchange of its 7¾% Series B Senior Subordinated Notes due 2013, which have been registered under the Securities Act of 1933, as amended, for any and all outstanding 7¾% Senior Subordinated Notes due 2013. All of the \$175,000 in aggregate principal amount of the 7¾% Senior Subordinated Notes due 2013 were validly tendered for exchange and have been accepted by Syniverse. The new notes have substantially identical terms of the 7¾% Senior Subordinated Notes due 2013, except the new notes have been registered under the Securities Act of 1933, as amended.

#### **14. Derivatives**

The portion of the interest rate associated with our Term Note B under our new senior credit facility that is based on the three month LIBOR rate is subject to variability. To protect against interest rate risk, we acquired an interest rate cap agreement during the year ended December 31, 2003. The cap had a term of two years and expired in March 2005, a notional amount of \$100,000 and provides an interest rate cap of 3%. We paid a premium of \$390 to obtain the cap and any amounts due to us as a result of LIBOR exceeding the strike rate were to be paid quarterly. As of December 31, 2005, the fair value of the cap was zero. The decline in fair value associated with the cap has been recorded as interest expense in the statement of operations for the years ended December 31, 2004 and December 31, 2005. There was no activity related to derivatives during the year ended December 31, 2006.

## **15. Stockholder's Equity**

On February 10, 2005, we completed an initial public offering (IPO) of 17,620,000 shares of common stock at a price of \$16.00 per common share. The net proceeds of the offering of \$260,966 after deducting underwriting discounts, commissions and expenses, along with the \$240,000 received from our new credit facility as described in Note 13, were used to redeem 124,876 shares of our class A cumulative redeemable preferred stock as described below, tender for 35% of our senior subordinated notes as described in Note 13 and repay our previous senior credit facility as described in Note 13.

On February 15, 2005, we redeemed 124,876 shares of our class A cumulative redeemable convertible preferred stock including accrued and unpaid dividends with \$176,456 of proceeds received from our initial public offering completed on February 10, 2005.

On March 28, 2005, we converted the remaining 115,604 shares of our class A cumulative redeemable convertible preferred stock including accrued and unpaid dividends at a liquidation value of \$163,353 into 10,209,598 shares of our class A common stock.

After our initial public offering and the dissolution of Syniverse LLC, certain of our executives now own shares of our common stock, which are subject to vesting over time. As of March 7, 2007, 65,333 shares with an original cost of \$5 were unvested.

Pursuant to the amended and restated senior management agreements dated February 9, 2005, the unvested shares are subject to the following repurchase provisions:

- Under our former Chief Executive Officer's amended and restated senior management agreement, we can, under certain circumstances, repurchase all of his unvested shares; however, we have a mandatory obligation to do so in the event of his death or disability. The price for each unvested share will be his original cost. As of March 7, 2007, our former Chief Executive Officer had no unvested shares of our common stock. (See Note 22—Other—for a discussion of the resignation of our former Chief Executive Officer)
- Under the remaining amended and restated senior management agreements, we can, under certain circumstances, repurchase all unvested shares. The remaining senior management agreements allow us to purchase all unvested shares at the lesser of the executives' original cost or the prevailing fair market value of the unvested shares. As of March 7, 2007, the remaining executives' had 65,333 unvested shares of our common stock.

The maximum amount that we would be required to pay to repurchase all unvested shares under these agreements as of March 7, 2007 would be \$5.

As of December 31, 2006, our authorized capital stock consisted of 100,300,000 shares of common stock, \$0.001 par value per share, 300,000 shares of unclassified preferred stock, \$0.001 par value per share and 300,000 shares of class A cumulative redeemable convertible preferred stock, \$0.01 par value per share.

## **16. Restructurings**

In connection with the IOS North America acquisition on September 30, 2004, we began to formulate restructuring plans, which consisted primarily of the relocation of key IOS North America employees and the elimination of redundant positions. As a result of these plans, we recognized \$1,888 of employee relocation costs and termination benefits as liabilities in the purchase accounting in accordance with EITF 95-3. We paid the remainder of these benefits in 2006.

For the year ended December 31, 2004, we had the following activity in our restructuring accruals:

	<u>January 1, 2004 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>December 31, 2004 Balance</u>
December 2003 Restructuring*				
Termination costs .....	\$ 93	\$ —	\$ (93)	\$ —
April 2004 Restructuring				
Termination costs .....	—	289	(289)	—
September 2004 Restructuring*				
Termination costs .....	—	788	—	788
Relocation costs .....	—	1,100	—	1,100
Total .....	<u>\$ 93</u>	<u>\$2,177</u>	<u>\$(382)</u>	<u>\$1,888</u>

For the year ended December 31, 2005, we had the following activity in our restructuring accruals:

	<u>January 1, 2005 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Reductions</u>	<u>December 31, 2005 Balance</u>
September 2004 Restructuring*					
Termination costs .....	\$ 788	\$244 <sup>†</sup>	\$ (638)	\$ —	\$394
Relocation costs .....	1,100	—	(314)	(688) <sup>†</sup>	98
September 2005 Restructuring					
Termination costs .....	—	143	(143)	—	—
Total .....	<u>\$1,888</u>	<u>\$387</u>	<u>\$(1,095)</u>	<u>\$(688)</u>	<u>\$492</u>

In February 2006, we completed a restructuring plan in our marketing group resulting in the termination of eight employees. As a result, we incurred \$338 in severance related costs and made payments for the same amount in 2006. In August 2006, we completed a restructuring plan in our operations and marketing groups, resulting in the termination of 30 employees. As a result, we incurred \$668 in severance related costs and made payments of \$512 in 2006. We expect to pay the remainder of the liabilities relating to the restructurings in the first quarter of 2007.

For the year ended December 31, 2006, we had the following activity in our restructuring accruals:

	<u>December 31, 2005 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Reductions</u>	<u>December 31, 2006 Balance</u>
September 2004 Restructuring*					
Termination costs .....	\$394	\$ —	\$ (330)	\$ (64)	\$—
Relocation costs .....	98	—	(89)	(9)	—
February 2006 Restructuring					
Termination costs .....	—	338	(338)	—	—
August 2006 Restructuring					
Termination costs .....	—	668	(512)	—	156
Total .....	<u>\$492</u>	<u>\$1,006</u>	<u>\$(1,269)</u>	<u>\$(73)</u>	<u>\$156</u>

\* These accruals were reflected in purchase accounting.

† These amounts were adjustments to goodwill.

## 17. Employee Benefits

### Savings Plans of Syniverse

During the period from February 14, 2002 to December 31, 2002, we adopted a 401(k) plan covering all employees subject to certain eligibility requirements. Under this plan, a certain percentage of eligible employee contributions are matched. We incurred total savings plan costs of \$2,204, \$2,268 and \$2,359 for the years ended December 31, 2004, 2005 and 2006, respectively.

## 18. Income Taxes

The components of income tax expense (benefit) are as follows:

	Year Ended December 31,		
	2004	2005	2006
Current:			
Federal .....	\$ 132	\$ (54)	159
Foreign .....	17	43	571
State and local .....	18	104	—
	<u>167</u>	<u>93</u>	<u>730</u>
Deferred			
Federal .....	7,693	7,527	(35,987)
Foreign .....	0	0	(291)
State and local .....	869	1,421	(4,026)
	<u>8,562</u>	<u>8,948</u>	<u>(40,304)</u>
Provision for (benefit from) income taxes .....	<u>\$8,729</u>	<u>\$9,041</u>	<u>(39,574)</u>

We recognized a deferred tax benefit in 2006 due to the reversal of a large portion of our valuation allowance. Management has decided that it is more likely than not that the Company will realize the benefit of its net deferred tax assets.

The income tax expense differs from amounts computed by applying the U.S. statutory rate of 35% to pre-tax income from operations as follows:

	Year Ended December 31,		
	2004	2005	2006
Statutory federal income tax rate .....	35.0%	35.0%	35.0%
State and local income tax, net of federal tax benefit .....	3.9	4.0	3.7
Impact of foreign tax rates .....	0.1	0.4	(0.1)
Expired losses .....	0.0	0.0	21.2
Other, net .....	2.0	1.0	(1.3)
Change in valuation allowance .....	<u>(4.3)</u>	<u>7.6</u>	<u>(137.4)</u>
	<u>36.7%</u>	<u>48.0%</u>	<u>(78.9)%</u>

We intend to directly re-invest income from all of our foreign subsidiaries. The aggregate undistributed earnings of the our foreign subsidiaries for which no deferred tax liability has been recorded is approximately \$3,600 at December 31, 2006. Determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practical.

The components of pretax income from operations are as follows:

	Year Ended December 31,		
	2004	2005	2006
United States .....	\$ 28,307	\$ 16,492	\$ 46,649
Foreign .....	<u>(4,515)</u>	<u>2,353</u>	<u>3,501</u>
	<u>\$23,792</u>	<u>\$18,845</u>	<u>\$50,150</u>

Deferred income tax assets and liabilities are recorded due primarily to different carrying amounts for financial and income tax reporting purposes arising from cumulative temporary differences. Significant components of deferred tax (liabilities) assets are shown in the following table:

	December 31, 2005		December 31, 2006	
	Current	Non-Current	Current	Non-Current
Accrued expenses .....	\$ 1,093	\$ —	\$ 748	\$ —
Intangibles .....	—	(19,623)	—	(33,821)
Property & equipment .....	—	1,442	—	1,552
Employee benefit accruals .....	4,277	—	259	—
Accounts receivable .....	415	—	342	—
Tax credits .....	—	581	226	460
Capital loss carryforward .....	—	6,362	—	366
Net operating loss carryforwards .....	—	48,482	—	41,717
Other-net .....	(706)	195	149	(154)
Deferred tax asset/(liability) .....	5,079	37,439	1,724	10,120
Valuation allowance .....	(5,734)	(73,625)	(266)	(10,206)
Net deferred tax asset/(liability) .....	<u>\$ (655)</u>	<u>\$(36,186)</u>	<u>\$1,458</u>	<u>\$ (86)</u>

Our deferred tax assets arise primarily from accumulated U.S. federal NOLs of \$80,731 and capital losses of \$941, which expire between 2006 and 2025. These NOLs relate primarily to Brience's operations in periods prior to February 14, 2002.

Our fourth quarter results include a reversal of a significant portion of our deferred tax asset valuation allowance. A valuation allowance, originally established in 2003 and adjusted annually thereafter, was recorded as we determined that the realization of those tax assets did not meet the more-likely-than-not criteria under accounting rules. In the fourth quarter of 2006, based upon an evaluation of our most recent seven quarters of profitability and the expectation of continued net income, a \$49,179 tax benefit was recognized as we determined that we had met the more-likely-than-not criteria related to certain net deferred tax assets. We continue to maintain a valuation allowance for certain other net deferred tax assets primarily associated with foreign and state net operating losses and capital loss carryforwards.

All of our NOLs remain subject to examination and adjustment by the Internal Revenue Service.

We do not believe that any of our NOLs are currently subject to any limitation under Section 382 of the Code. However, the NOLs acquired from Brience are subject to the separate return limitation rules under the consolidated return regulations. As a result, these NOLs generally can be utilized only to offset income from the consolidated group of corporations or their successors that generated such losses. In addition, under Section 382 of the Code, a corporation that undergoes an "ownership change" generally may utilize its pre-change NOLs only to the extent of an annual amount determined by multiplying the applicable long-term tax-exempt rate by the equity value of such corporation. A corporation generally undergoes an ownership change if the percentage of stock of the corporation owned by one or more 5% stockholders has increased by more than 50 percentage points over a three-year period. We do not believe the consummation of our initial public offering resulted in an ownership change under Section 382 of the Code.

It is impossible for us to ensure that an ownership change will not occur in the future as changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Code. For example, the sale by one or more 5% stockholders of our common stock and changes in the beneficial ownership of such stock could result in an ownership change under Section 382 of the Code. Similarly, the exercise of outstanding stock options by our employees would count for purposes of determining whether we had an ownership change.

If we undergo an ownership change, our ability to utilize NOLs could be limited by Section 382 of the Code. The extent to which our use of our NOLs would be limited depends on a number of legal and factual

determinations, some of which may be subject to varying interpretations, including the date on which an ownership change occurs, the long-term tax exempt rate, whether the equity value of the entire company or only one or more of its subsidiaries would be used in the application of the Section 382 limitation and the equity value of the company or such subsidiaries, as applicable. If it is determined that an ownership change occurred prior to July 23, 2005, there is a significant risk that the amount of NOLs acquired from Brienre that would be useable in any one year after the ownership change would be severely limited. If the limitation were significant, our limited ability to use these NOLs to offset future taxable income could materially increase our future U.S. federal income tax liability.

## **19. Commitments and Contingencies**

We are currently a party to various claims and legal actions that arise in the ordinary course of business. We believe such claims and legal actions, individually and in the aggregate, will not have a material adverse effect on our business, financial condition or results of operations. As of December 31, 2006, we have considered all of the claims and disputes of which we are aware and have provided for probable losses as part of the allowance for doubtful accounts, allowance for credit memos or accrued liabilities.

The most significant of these claims, in terms of dollars sought, are described below:

SBC Communications, Inc., d/b/a SBC Ameritech, SBC Southwestern Bell and SBC Pacific Bell (collectively, SBC), have asserted claims against us in the total principal sum of \$7,281, based on alleged overcharging for services we provided. We deny the claims, believe they are unfounded and on April 15, 2003 filed a complaint in Hillsborough County, Florida against SBC Southwestern Bell and SBC Pacific Bell seeking a Declaratory Judgment denying their claims and seeking \$1,358, which they have refused to pay.

On June 28, 2004, SBC Ameritech filed a Demand for Arbitration in Chicago seeking \$2,100 of the \$7,281 it claims it was over-billed by Syniverse. On July 19, 2004 we filed a motion to dismiss/abate the Demand based on SBC Ameritech's failure to engage in mediation prior to arbitration, as required by the contract under which it alleges it was over-billed. The motion was denied on December 14, 2004. On May 4, 2006, an Arbitrator issued a written decision denying SBC Ameritech's \$2,100 claim and ordering it to pay us \$76. On August 23, 2006, all claims between SBC and Syniverse relating to this matter were settled resulting in a \$1,368 charge to our statements of operations during the third quarter of 2006.

On April 21, 2005, we filed a complaint against BellSouth Telecommunications, Inc. in the Federal District Court in Tampa, Florida seeking judgment for unpaid charges of approximately \$3,290 related to calling name database services provided during March 2004 to July 2004 for which BellSouth has refused payment. On December 18, 2006, all claims between Syniverse and BellSouth were settled resulting in a full and final resolution of this matter.

On August 9, 2005, we filed a complaint seeking injunctive relief and damages in Hillsborough County, Florida against Electronic Data Systems Corporation ("EDS") and EDS Information Services LLC alleging a breach of contract, tortious interference with prospective business relations and unfair competition. This complaint was based on our discovery in the second quarter of 2005 that EDS was offering to provide clearing services to one of our customers when the customer's contract with Syniverse expires in 2006. We believe this offer to provide clearing services to that customer constitutes a breach of certain non-compete obligations of EDS contained in the asset purchase agreement between EDS and us.

On August 11, 2005, the Circuit Court of the 13<sup>th</sup> Judicial Circuit for the State of Florida granted our motion for a temporary injunction and enjoined the EDS defendants from selling the assets of their European subsidiaries unless the prospective purchaser assumed the non-compete obligations of EDS. The injunction is conditioned upon Syniverse providing a \$1 million surety bond, which we have now paid. We intend to continue to pursue this matter vigorously.



On April 13, 2006, we were served with a Petition for Declaratory Judgment filed by Billing Concepts, Inc. d/b/a BSG Clearing Solutions ("BCI") in Texas State Court asking the court to find, in pertinent part, that BCI's offering of services competitive to Syniverse in the United States and North America is not subject to the restrictions imposed on BSG-Germany. Syniverse contests the Petition and filed an appropriate response in accordance with local court rules.

## **20. Related Party Transactions**

In addition to related party transactions disclosed elsewhere in the footnotes, the following summarizes information related to additional related party transactions.

### *Professional Services Agreement*

We have agreed to pay GTCR Golder Rauner, LLC (GTCR) an annual fee of \$500 for its ongoing services as our financial and management consultant. We incurred \$500 for the year ended December 31, 2004 and \$83 for the year ended December 31, 2005. In connection with our public offering in February 2005, the professional services agreement was terminated.

Additionally, in connection with the Third Amendment to our previous senior credit facility on September 30, 2004, we paid GTCR a \$445 placement fee.

### *Revenue Guaranty Agreement*

Verizon agreed, through December 31, 2005, to make quarterly payments to us if the amount of wireless revenues, as defined, for a given period is less than the revenue target for such period. In general the revenue guaranty payments will be due if wireless revenues during each of the years in the period from February 14, 2002 to December 31, 2005 are less than 82.5% of the agreed-upon targets. The payments due would be calculated as equal to 61.875% of the quarterly shortfall. No payments from Verizon are due under the guaranty agreement for the period from February 14, 2002 to December 31, 2002 or the years ended December 31, 2003, 2004 and 2005. This agreement has now expired.

### *Other*

GTCR Fund VII, L.P., investment fund affiliated with our controlling equityholder, has loaned Mr. Evans approximately \$1,000 to fund a portion of the purchase price for his purchase of Co-Invest Units and Carried Units. This loan bears interest at a rate of 10% per annum. This loan is not recorded in our financial statements. On February 15, 2005 this loan of \$1,000 plus accrued interest of \$300 was repaid.

We transact business and recognize revenues and expenses from Transaction Network Services, Inc. (TNS), a company affiliated with Syniverse Inc.'s controlling stockholder through 2005. As of January 1, 2006, TNS was not affiliated with Syniverse's controlling stockholder. For the years ended December 31, 2004, 2005 and 2006, we recognized revenues in the amount of \$1,462, \$959 and \$0 respectively. For the years ended December 31, 2004, 2005 and 2006, we recognized expenses in the amount of \$195, \$294 and \$0, respectively.

## 21. Quarterly Financial Information (Unaudited)

The following presents quarterly financial results for the year ended December 31, 2006.

	First Quarter 2006	Second Quarter 2006	Third Quarter 2006	Fourth Quarter 2006
Revenues .....	\$75,417	\$82,194	\$93,567	\$85,841
Operating income .....	11,088	18,237	27,155	19,766
Net income .....	3,550	9,487	17,582	59,105
Net income attributable to common stockholders .....	3,550	9,487	17,582	59,105
Basic and diluted net income per common share .....	\$ 0.05	\$ 0.14	\$ 0.26	\$ 0.88

The following presents quarterly financial results for the year ended December 31, 2005.

	First Quarter 2005	Second Quarter 2005	Third Quarter 2005	Fourth Quarter 2005
Revenues .....	\$ 79,419	\$86,875	\$91,879	\$83,618
Operating income .....	19,292	22,047	29,011	22,553
Net income (loss) .....	(16,952)	11,778	(295)	15,273
Net income (loss) attributable to common stockholders .....	(21,147)	11,778	(295)	15,273
Basic and diluted net income (loss) per common share .....	\$ (0.43)	\$ 0.18	\$ 0.00	\$ 0.23

In the quarters ended March 31, 2005, September 30, 2005 and September 30, 2006 (as more fully described in Note 13), we recognized \$23,788, \$19,016 and 924, respectively, on the early extinguishment of debt related to our previous senior credit facility and the tender of our 12¾% senior subordinated notes due 2009.

## 22. Other Events

In December 2006, our Board of Directors named Robert J. Marino non-executive Chairman of the Board effective December 31, 2006. Mr. Marino succeeded G. Edward Evans, who left the company at the end of 2006.

## 23. Supplemental Consolidating Financial Information

Syniverse's payment obligations under the senior notes, described in Note 13 above, are guaranteed by Syniverse Inc. and all domestic subsidiaries of Syniverse including Syniverse Brence (collectively, the Guarantors). The results of Syniverse BV, Syniverse Limited and ITHL are included as non-guarantors. Such guarantees are full, unconditional and joint and several. The following supplemental financial information sets forth, on an unconsolidated basis, balance sheets, statements of operations, and statements of cash flows information for Syniverse Inc., Syniverse and for the guarantor and non-guarantor subsidiaries. The supplemental financial information reflects the investment Syniverse, Inc. using the equity method of accounting.

**CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 2006**

	Syniverse Inc.	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash .....	\$ 41	\$ 18,920	\$ —	\$ 7,743	\$ —	\$ 26,704
Accounts receivable, net of allowances .....	—	57,090	—	12,073	—	69,163
Accounts receivable—affiliates ...	95	7,395	417	—	(7,907)	—
Prepaid and other current assets ...	—	5,274	—	4,863	—	10,137
Total current assets .....	136	88,679	417	24,679	(7,907)	106,004
Property and equipment, net .....	—	41,860	—	1,020	—	42,880
Capitalized software, net .....	—	45,352	—	6,451	—	51,803
Deferred costs, net .....	—	4,842	—	—	—	4,842
Goodwill .....	—	361,239	—	32,423	—	393,662
Identifiable intangibles, net: .....	—	178,047	—	4,207	—	182,254
Other assets .....	—	2,702	—	—	—	2,702
Investment in subsidiaries .....	414,704	47,671	—	—	(462,375)	—
Total assets .....	<u>\$414,840</u>	<u>\$770,392</u>	<u>\$ 417</u>	<u>\$68,780</u>	<u>\$(470,282)</u>	<u>\$784,147</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable .....	\$ 30	\$ 7,421	\$ —	\$ 1,140	\$ —	\$ 8,591
Accounts payable—affiliates .....	—	—	—	7,907	(7,907)	—
Accrued payroll and related benefits .....	16	3,742	—	1,384	—	5,142
Accrued interest .....	—	5,206	—	—	—	5,206
Other accrued liabilities .....	—	27,269	—	9,192	—	36,461
Current portion of Term Note B ...	—	1,393	—	—	—	1,393
Total current liabilities .....	46	45,031	—	19,623	(7,907)	56,793
Long-term liabilities:						
Deferred tax liabilities .....	—	—	—	1,900	—	1,900
7¾% Senior Subordinated Notes due 2013 .....	—	175,000	—	—	—	175,000
Term Note B .....	—	135,168	—	—	—	135,168
Other long-term liabilities .....	—	489	—	3	—	492
Total long-term liabilities ....	—	310,657	—	1,903	—	312,560
Stockholders' equity:						
Common stock .....	68	—	116,630	31	(116,661)	68
Additional paid-in capital .....	459,125	459,075	—	47,153	(506,228)	459,125
Accumulated deficit .....	(44,777)	(44,777)	(116,213)	(336)	161,326	(44,777)
Accumulated other comprehensive income .....	406	406	—	406	(812)	406
Less treasury stock, at cost .....	(28)	—	—	—	—	(28)
Total stockholders' equity ....	414,794	414,704	417	47,254	(462,375)	414,794
Total liabilities and stockholders' equity .....	<u>\$414,840</u>	<u>\$770,392</u>	<u>\$ 417</u>	<u>\$68,780</u>	<u>\$(470,282)</u>	<u>\$784,147</u>

**CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Syniverse Inc.</u>	<u>Syniverse</u>	<u>Subsidiary Guarantors</u>	<u>Subsidiary Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues .....	\$ —	\$310,590	\$150	\$26,279	\$ —	\$337,019
Costs and expenses:						
Cost of operations (excluding depreciation and amortization shown separately below) .....	153	121,495	—	12,993	—	134,641
Sales and marketing .....	378	20,322	—	4,746	—	25,446
General and administrative ..	1,289	54,189	8	3,022	—	58,508
Depreciation and amortization .....	—	39,659	—	1,513	—	41,172
Restructuring .....	—	1,006	—	—	—	1,006
	<u>1,820</u>	<u>236,671</u>	<u>8</u>	<u>22,274</u>	<u>—</u>	<u>260,773</u>
Operating income (loss) .....	(1,820)	73,919	142	4,005	—	76,246
Other income (expense), net:						
Income from equity investment .....	51,441	3,808	—	—	(55,249)	—
Interest income .....	2	1,785	—	37	—	1,824
Interest expense .....	—	(27,176)	—	(152)	—	(27,328)
Loss on extinguishment of debt .....	—	(924)	—	—	—	(924)
Other, net .....	527	29	—	(224)	—	332
	<u>51,970</u>	<u>(22,478)</u>	<u>—</u>	<u>(339)</u>	<u>(55,249)</u>	<u>(26,096)</u>
Income before provision for (benefit from) income taxes ...	50,150	51,441	142	3,666	(55,249)	50,150
Provision for (benefit from) income taxes .....	(39,574)	(40,100)	—	526	39,574	(39,574)
Net income .....	<u>89,724</u>	<u>91,541</u>	<u>142</u>	<u>3,140</u>	<u>(94,823)</u>	<u>89,724</u>

**CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Syniverse Inc.</u>	<u>Syniverse</u>	<u>Subsidiary Guarantors</u>	<u>Subsidiary Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Cash flows from operating activities</b>						
Net income .....	\$ 89,724	\$ 91,541	\$ 142	\$ 3,140	\$(94,823)	\$ 89,724
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization including amortization of deferred debt issuance costs .....	—	41,210	—	1,328	—	42,538
Provision for uncollectible accounts .....	—	456	—	33	—	489
Deferred income tax expense, benefit .....	—	(40,126)	—	(178)	—	(40,304)
Loss on extinguishment of debt .....	—	924	—	—	—	924
Income from equity investment .....	(51,441)	(3,808)	—	—	55,249	—
Stock-based compensation .....	1,820	—	—	—	—	1,820
Gain on sale of marketable securities .....	—	(119)	—	—	—	(119)
Loss on disposition of property .....	—	441	—	—	—	441
Changes in operating assets and liabilities:						
Accounts receivable .....	—	2,254	664	(3,555)	—	(637)
Other current assets .....	—	486	—	2,471	—	2,957
Accounts payable .....	—	(8,185)	—	2,225	—	(5,960)
Other current liabilities .....	(39,574)	7,575	(866)	(309)	39,574	6,400
Other assets and liabilities .....	(631)	59	—	110	—	(462)
Net cash provided by (used) in operating activities ...	(102)	92,708	(60)	5,265	—	97,811
<b>Cash flows from investing activities</b>						
Capital expenditures .....	—	(19,605)	—	(316)	—	(19,921)
Proceeds from the sale of marketable securities .....	—	119	—	—	—	119
Acquisition of ITHL, net of acquired cash .....	—	(45,012)	—	1,131	—	(43,881)
Net cash provided by (used) in investing activities ...	—	(64,498)	—	815	—	(63,683)
<b>Cash flows from financing activities</b>						
Repayment of 12¾% senior subordinated notes due 2009, including prepayment premium and related fees .....	—	(15,424)	—	—	—	(15,424)
Principal payments on new senior credit facility .....	—	(41,763)	—	—	—	(41,763)
Stock options exercised .....	140	—	—	—	—	140
Purchase of treasury stock .....	(5)	—	—	—	—	(5)
Net cash provided by (used) in financing activities ...	135	(57,187)	—	—	—	(57,052)
Effect of exchange rate changes on cash ...	—	1	—	333	—	334
Net increase (decrease) in cash .....	33	(28,976)	(60)	6,413	—	(22,590)
Cash at beginning of period .....	8	47,896	60	1,330	—	49,294
Cash at end of period .....	<u>\$ 41</u>	<u>\$ 18,920</u>	<u>\$ —</u>	<u>\$ 7,743</u>	<u>\$ —</u>	<u>\$ 26,704</u>

**CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 2005**

	<u>Syniverse Inc.</u>	<u>Syniverse</u>	<u>Subsidiary Guarantors</u>	<u>Subsidiary Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents .....	\$ 8	\$ 47,896	\$ 60	\$ 1,330	\$ —	\$ 49,294
Accounts receivable, net of allowances .....	—	59,814	650	1,271	—	61,735
Accounts receivable—affiliates .....	—	4,050	431	—	(4,481)	—
Deferred tax assets, net .....	—	—	—	—	—	—
Prepaid and other current assets .....	—	4,147	117	115	—	4,379
Total current assets .....	8	115,907	1,258	2,716	(4,481)	115,408
Property and equipment, net .....	—	43,318	—	108	—	43,426
Capitalized software, net .....	—	52,525	—	149	—	52,674
Deferred costs, net .....	—	6,218	—	—	—	6,218
Goodwill .....	—	361,311	—	754	—	362,065
Identifiable intangibles, net:						
Customer contract, net .....	—	1	—	300	—	301
Customer base, net .....	—	190,026	—	—	—	190,026
Other assets .....	—	1,240	—	—	—	1,240
Investment in subsidiaries .....	322,632	(390)	—	—	(322,242)	—
Total assets .....	<u>\$ 322,640</u>	<u>\$ 770,156</u>	<u>\$ 1,258</u>	<u>\$ 4,027</u>	<u>\$(326,723)</u>	<u>\$ 771,358</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable .....	\$ —	\$ 4,854	\$ —	\$ 8	\$ —	\$ 4,862
Accounts payable—affiliates .....	—	—	—	4,481	(4,481)	—
Accrued payroll and related benefits ....	1	11,115	—	622	—	11,738
Accrued interest .....	—	5,618	—	—	—	5,618
Other accrued liabilities .....	—	20,503	156	408	—	21,067
Current portion of 12 3/4% Senior Subordinated Notes due 2009, net of discount .....	—	14,469	—	—	—	14,469
Current portion of Term Note B .....	—	1,801	—	—	—	1,801
Total current liabilities .....	1	58,360	156	5,519	(4,481)	59,555
Long-term liabilities:						
Deferred tax liabilities .....	—	36,186	—	—	—	36,186
12 3/4% Senior Subordinated Notes due 2009, net of discount .....	—	—	—	—	—	—
7 3/4% Senior Subordinated Notes due 2013 .....	—	175,000	—	—	—	175,000
Term Note B, net of discount .....	—	176,524	—	—	—	176,524
Other long-term liabilities .....	—	1,454	—	—	—	1,454
Total long-term liabilities .....	—	389,164	—	—	—	389,164
Stockholders' equity:						
Common stock .....	68	—	117,340	21	(117,361)	68
Additional paid-in capital .....	457,165	457,226	—	2,151	(459,377)	457,165
Accumulated deficit .....	(134,501)	(134,501)	(116,355)	(3,476)	254,332	(134,501)
Accumulated other comprehensive income (loss) .....	(70)	(70)	117	(188)	141	(70)
Less treasury stock, at cost .....	(23)	(23)	—	—	23	(23)
Total stockholders' equity (deficit) .....	322,639	322,632	1,102	(1,492)	(322,242)	322,639
Total liabilities and stockholders' equity .....	<u>\$ 322,640</u>	<u>\$ 770,156</u>	<u>\$ 1,258</u>	<u>\$ 4,027</u>	<u>\$(326,723)</u>	<u>\$ 771,358</u>

**CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Syniverse Inc.</u>	<u>Syniverse</u>	<u>Subsidiary Guarantors</u>	<u>Subsidiary Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues .....	\$ —	\$336,987	\$289	\$4,515	\$ —	\$341,791
Costs and expenses:						
Cost of operations (excluding depreciation and amortization shown separately below) .....	—	127,977	—	1,213	—	129,190
Sales and marketing .....	—	20,220	—	3,124	—	23,344
General and administrative .....	4	48,786	17	589	—	49,396
Depreciation and amortization .....	—	46,561	—	254	—	46,815
Restructuring .....	—	—	—	143	—	143
	<u>4</u>	<u>243,544</u>	<u>17</u>	<u>5,323</u>	<u>—</u>	<u>248,888</u>
Operating income (loss) .....	(4)	93,443	272	(808)	—	92,903
Other income (expense), net:						
Income (loss) from equity investment .....	18,849	2,625	—	—	(21,474)	—
Interest income .....	—	1,951	—	6	—	1,957
Interest expense .....	—	(34,531)	—	(116)	—	(34,647)
Loss on extinguishment of debt .....	—	(42,804)	—	—	—	(42,804)
Other, net .....	—	(1,835)	—	3,271	—	1,436
	<u>18,849</u>	<u>(74,594)</u>	<u>—</u>	<u>3,161</u>	<u>(21,474)</u>	<u>(74,058)</u>
Income before provision for income taxes .....	18,845	18,849	272	2,353	(21,474)	18,845
Provision for income taxes .....	<u>9,041</u>	<u>9,041</u>	<u>—</u>	<u>—</u>	<u>(9,041)</u>	<u>9,041</u>
Net income .....	9,804	9,808	272	2,353	(12,433)	9,804
Preferred stock dividends .....	<u>(4,195)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,195)</u>
Net income attributable to common stockholders ....	<u>\$ 5,609</u>	<u>\$ 9,808</u>	<u>\$272</u>	<u>\$2,353</u>	<u>\$(12,433)</u>	<u>\$ 5,609</u>

**CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Syniverse Inc.	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Consolidated
<b>Cash flows from operating activities</b>						
Net income .....	\$ 9,804	\$ 9,804	\$ 272	\$2,353	\$(12,429)	\$ 9,804
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation and amortization including amortization of deferred debt issuance costs .....	—	50,178	—	253	—	50,431
Provision for uncollectible accounts .....	—	546	—	—	—	546
Deferred income tax expense .....	—	8,948	—	—	—	8,948
(Income) loss from equity investment ...	(18,845)	(2,625)	—	—	21,470	—
Loss on extinguishment of debt .....	—	42,804	—	—	—	42,804
Loss on disposition of property .....	—	612	—	—	—	612
Gain on sale of marketable securities ...	—	(1,446)	—	—	—	(1,446)
Changes in operating assets and liabilities:						
Accounts receivable .....	—	18,297	(163)	(965)	—	17,169
Other current assets .....	—	170	—	2	—	172
Accounts payable .....	—	(5,927)	—	(559)	—	(6,486)
Other current liabilities .....	9,041	(10,740)	(112)	(119)	(9,041)	(10,971)
Other assets and liabilities .....	—	(1,006)	—	—	—	(1,006)
Net cash provided by (used in) operating activities .....	—	109,615	(3)	965	—	110,577
<b>Cash flows from investing activities</b>						
Capital expenditures .....	—	(33,983)	—	(18)	—	(34,001)
Proceeds from sale of marketable securities ..	—	1,446	—	—	—	1,446
Net cash used in investing activities .....	—	(32,537)	—	(18)	—	(32,555)
<b>Cash flows from financing activities</b>						
Debt issuance costs paid .....	—	(6,681)	—	—	—	(6,681)
Repayment of 12¾% senior subordinated notes due 2009 including prepayment of premium and related fees .....	—	(257,661)	—	—	—	(257,661)
Repayment of previous senior credit facility .....	—	(220,073)	—	—	—	(220,073)
Borrowings under new senior credit facility ..	—	240,000	—	—	—	240,000
Principal payments on new senior credit facility .....	—	(61,675)	—	—	—	(61,675)
Proceeds from issuance of 7¾% senior subordinated notes due 2013 .....	—	175,000	—	—	—	175,000
Proceeds from issuance of common stock, net of issuance costs of \$20,961 .....	—	260,966	—	—	—	260,966
Redemption of Class A preferred stock at liquidation value .....	—	(176,456)	—	—	—	(176,456)
Purchase of treasury stock .....	—	(23)	—	—	—	(23)
Net cash used in financing activities .....	—	(46,603)	—	—	—	(46,603)
Effect of exchange rate changes on cash .....	—	1	—	(45)	—	(44)
Net increase (decrease) in cash .....	—	30,476	(3)	902	—	31,375
Cash and cash equivalents at beginning of year .....	—	17,429	62	428	—	17,919
Cash and cash equivalents at end of year ....	\$ —	\$ 47,905	\$ 59	\$1,330	\$ —	\$ 49,294



**CONSOLIDATING STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Syniverse Inc.</u>	<u>Syniverse</u>	<u>Subsidiary Guarantors</u>	<u>Subsidiary Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues .....	\$ —	\$330,338	\$843	\$ 1,222	\$ —	\$332,403
Costs and expenses:						
Cost of operations .....	—	137,418	171	895	—	138,484
Sales and marketing .....	—	18,500	—	1,744	—	20,244
General and administrative .....	—	39,030	68	2,676	—	41,774
Depreciation and amortization .....	—	41,731	—	241	—	41,972
Restructuring .....	—	—	—	289	—	289
Impairment losses on intangible assets .....	—	14,056	—	—	—	14,056
	<u>—</u>	<u>250,735</u>	<u>239</u>	<u>5,845</u>	<u>—</u>	<u>256,819</u>
Operating income (loss) .....	—	79,603	604	(4,623)	—	75,584
Other income (expense), net:						
Income from equity investment .....	23,792	(3,846)	—	—	(19,946)	—
Interest income .....	—	1,080	65	3	—	1,148
Interest expense .....	—	(52,912)	—	(16)	—	(52,928)
Other, net .....	—	(133)	—	121	—	(12)
	<u>23,792</u>	<u>(55,811)</u>	<u>65</u>	<u>108</u>	<u>(19,946)</u>	<u>(51,792)</u>
Income (loss) before provision for income taxes .....	23,792	23,792	669	(4,515)	(19,946)	23,792
Provision for income taxes .....	8,729	8,729	—	—	(8,729)	8,729
Net income (loss) .....	15,063	15,063	669	(4,515)	(11,217)	15,063
Preferred stock dividends .....	<u>(31,564)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(31,564)</u>
Net income (loss) attributable to common stockholders .....	<u>\$(16,501)</u>	<u>\$ 15,063</u>	<u>\$669</u>	<u>\$(4,515)</u>	<u>\$(11,217)</u>	<u>\$(16,501)</u>

**CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Syniverse Inc.</u>	<u>Syniverse</u>	<u>Subsidiary Guarantors</u>	<u>Subsidiary Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Cash flows from operating activities</b>						
Net income (loss) .....	\$ 15,063	\$ 15,063	\$ 669	\$(4,515)	\$(11,217)	\$ 15,063
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation and amortization including amortization of deferred debt issuance costs .....	—	50,803	—	241	—	51,044
Provision for (recovery of) uncollectible accounts .....	—	(212)	(14)	61	—	(165)
Deferred income tax expense .....	—	8,562	—	—	—	8,562
Income (loss) from equity investment .....	(23,792)	3,846	—	—	19,946	—
Loss on disposition of property ....	—	147	—	—	—	147
Impairment losses on intangible assets .....	—	14,056	—	—	—	14,056
Changes in current assets and liabilities:						
Accounts receivable .....	—	(16,004)	474	(87)	—	(15,617)
Other current assets .....	—	1,342	63	19	—	1,424
Accounts payable .....	—	4,195	(1,078)	5,239	—	8,356
Other current liabilities .....	8,729	5,456	(55)	(528)	(8,729)	4,873
Other assets and liabilities ....	—	(2,047)	—	—	—	(2,047)
Net cash provided by operating activities .....	—	85,207	59	430	—	85,696
<b>Cash flows from investing activities</b>						
Capital expenditures .....	—	(22,094)	—	(90)	—	(22,184)
Acquisition of IOS North America .....	—	(56,479)	—	—	—	(56,479)
Net cash used in investing activities .....	—	(78,573)	—	(90)	—	(78,663)
<b>Cash flows from financing activities</b>						
Debt issuance costs paid .....	—	(1,102)	—	—	—	(1,102)
Principal payments on previous senior credit facility .....	—	(40,701)	—	—	—	(40,701)
Borrowings under previous senior credit facility .....	—	44,500	—	—	—	44,500
Net cash provided by financing activities .....	—	2,697	—	—	—	2,697
Effect of exchange rate changes on cash .....	—	—	—	(110)	—	(110)
Net increase in cash .....	—	9,331	59	230	—	9,620
Cash and cash equivalents at beginning of year .....	—	8,098	3	198	—	8,299
Cash and cash equivalents at end of year .....	\$ —	\$ 17,429	\$ 62	\$ 428	\$ —	\$ 17,919

**Schedule II—Valuation and Qualifying Accounts**  
**Syniverse Holdings, Inc.**

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance at end of Period</u>
Allowance for doubtful accounts:				
Year ended December 31, 2004 .....	\$2,535	\$(165)(2)	\$(1,228)(1)	\$1,142
Year ended December 31, 2005 .....	\$1,142	\$ 546	\$ (621)(1)	\$1,067
Year ended December 31, 2006 .....	\$1,067	\$ 489	\$ (439)(3)	\$1,117

- (1) Write-offs of uncollectible accounts  
(2) Recovery of amounts previously provided for  
(3) Includes a \$236 addition recorded for ITHL at time of acquisition

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance at end of Period</u>
Accrual for restructuring:				
Year ended December 31, 2004 .....	\$ 93	\$2,177	\$ (382)(1)	\$1,888
Year ended December 31, 2005 .....	\$1,888	\$ 387	\$(1,339)(1)	\$ 492
Year ended December 31, 2006 .....	\$ 492	\$1,006	\$(1,269)(1)	\$ 156
			\$ (73)(2)	

- (1) Payments  
(2) Reduction related to change in estimates of amounts

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance at end of Period</u>
Valuation allowance for deferred income taxes:				
Year ended December 31, 2004 .....	\$72,996	\$ —	\$ (4,750)(2)	\$68,246
Year ended December 31, 2005 .....	\$68,246	\$11,113(3)	\$ —	\$79,359
Year ended December 31, 2006 .....	\$79,359	\$ —	\$(68,887)(4)	\$10,472

- (1) SFAS 109 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, its more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible.  
(2) Reduction related to partial utilization of a previously recorded and valued NOL carryforward.  
(3) Recognition of current period NOL.  
(4) Reduction related to partial reversal of valuation allowance.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 13th day of March, 2007

SYNIVERSE HOLDINGS, INC.  
SYNIVERSE TECHNOLOGIES, INC.

By: /s/ RAYMOND L. LAWLESS  
**Raymond L. Lawless**  
Chief Financial Officer and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated:

<u>Signatures</u>	<u>Capacity</u>	<u>Dates</u>
<u>/s/ ROBERT J. MARINO</u> Robert J. Marino	Chairman	March 13, 2007
<u>/s/ TONY G. HOLCOMBE</u> Tony G. Holcombe	Chief Executive Officer, President and Director (Principal Executive Officer)	March 13, 2007
<u>/s/ RAYMOND L. LAWLESS</u> Raymond L. Lawless	Chief Financial Officer, Secretary and Director (Principal Accounting Officer)	March 13, 2007
<u>/s/ DAVID A. DONNINI</u> David A. Donnini	Director	March 13, 2007
<u>/s/ COLLIN E. ROCHE</u> Collin E. Roche	Director	March 13, 2007
<u>/s/ ODIE C. DONALD</u> Odie C. Donald	Director	March 13, 2007
<u>/s/ JOHN C. HOFMANN</u> John C. Hofmann	Director	March 13, 2007
<u>/s/ JAMES B. LIPHAM</u> James B. Lipham	Director	March 13, 2007
<u>/s/ JACK PEARLSTEIN</u> Jack Pearlstein	Director	March 13, 2007

## EXECUTIVE OFFICERS

Tony Holcombe  
*President and  
Chief Executive Officer*

Eugene Bergen Henegouwen  
*Executive Vice President and  
Managing Director, EMEA*

Raymond Cheung  
*Executive Vice President and  
Chief Executive Officer, Asia Pacific*

Robert Garcia, Jr.  
*General Counsel*

Leigh M. Hennen  
*Chief Human Resources Officer*

Raymond L. Lawless  
*Chief Financial Officer*

Paul Wilcock  
*Chief Technology Officer*

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Vice President, Investor Relations  
Global Headquarters

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Listed: New York Stock Exchange

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Annual Meeting of Stockholders  
May 9, 2007  
Tampa, Florida USA

Independent Accountants  
Ernst & Young



[www.syniverse.com](http://www.syniverse.com)